Domtar Inc.
Annual Report 2000
Pulling together

Financial Highlights

(In millions of Canadian dollars, unless otherwise noted)

	2000	1999	1998	1997
Operating results				
Net sales	3,598	3,067	2,348	1,938
EBITDA	715	608	384	200
Operating profit	476	379	200	56
Net earnings	275	163	74	25
Net earnings per common share	1.49	0.87	0.44	0.15
Weighted average number of common shares outstanding (millions)	182.9	183.9	163.4	150.4
Balance sheet data				
Total assets	4,267	4,019	4,030	2,962
Net debt-to-total-capitalization (%) (2)	35%	37%	41%	32%
Year-end book value per common share	9.87	9.44	8.73	8.03
Cash flows				
Cash flows provided from operating activities	587	326	248	125
Net additions to property, plant and equipment	(242)	(201)	(205)	(130)
Free cash flow	345	125	43	(5)
Free cash flow per common share	1.89	0.68	0.26	(0.03)
Value creation				
EVA® (3)	58	(18)	(119)	(156)
Return on common shareholders' equity (ROE) (1)	16%	10%	5%	1%

(1) The 1997 figures exclude a non-recurring $17-million after-tax gain realized on the contribution of Domtar's packaging net assets to Norampac.

(2) Ratio of long-term debt and bank borrowings (net of cash and short-term investments) to total capitalization.

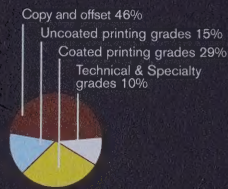
(3) EVA® (Economic Value Added) is a registered trademark of Stern Stewart & Co.

Pulling together.

Giving customers the power to decide.

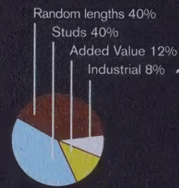
Corporate Overview

Papers
Net Sales: 72% of Domtar
Shipments*: 1,380,000 tons

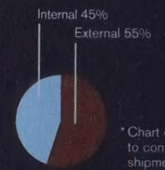


* Shipments of paper excludes merchant distributors

Wood
Net Sales: 13% of Domtar
Shipments: 1.1 billion board feet



Packaging*
Net Sales: 15% of Domtar
Shipments: 4,896 million sq. [illegible] of corrugated containers and 594,000 tonnes of containerb[illegible]



* Chart only [illegible] to containe[illegible] shipments

organization

Papers

- Communication Papers Division
- Eddy Specialty Papers Division
- Domtar-owned merchants
  - Ris Paper (United States)
  - Buntin-Reid/JBR La maison du papier/The Paper House (Canada)
- Network of independent distributors

Wood

- Forest Resources Division
- Wood Products Division
  - Joint ventures:
    1) Anthony-Domtar Inc. (I-Joist)
    2) Nabakatuk sawmill (with the Cree First Nation of Waswanipi)

Packaging

- Norampac Inc. (50-50 joint venture with Cascades Inc.)

products

Papers

Printing and business grades

- Papers used to make publications and glossy publications, and used in business offices and with personal computers. Main product lines are copy and offset, uncoated printing and coated printing

Technical and specialty grades

- Highly specialized papers mainly used in flexible packaging, and in industrial applications

Market pulp

- Northern Bleached Softwood Kraft pulp, and Northern Bleached Hardwood Kraft pulps such as Pure Maple, Pure Aspen and Pure Birch

Wood

- Value added lumber: Premium, J-Grade, Decking and MSR
- Kiln-dried dimension lumber and studs
- Industrial wood
- Wood components
- Boards and furring strips
- Edge-glued and finger-jointed products
- Hardwood lumber

Packaging (Norampac Inc.)

- Containerboard
- Corrugated products

facts+figure[s]

Papers

- Six paper mills (two integrate[d] in Canada and one in the United States
- Two market pulp mills in Canada
- Total annual paper productio[n] capacity: 1.4 million tons
- Total annual pulp production capacity: 1.3 million tonnes
- Net market pulp: 250,000 ton[nes]
- Merchants and independent distributors in more than 350 locations
- Approximately 6,000 employe[es]

Wood

- Total area of lands managed: 14.7 million hectares in Québe[c] Ontario, and the states of Main[e] and New York
- Sixteen sawmills and two remanufacturing mills in Canad[a]
- Total annual lumber producti[on] capacity: 1.2 billion board feet
- Approximately 3,000 employe[es]

Packaging (Norampac Inc[.])

- Twenty-six mills in Canada, the United States, and Europe
- Total annual production capacity for containerboard: 1.3 million tonnes[1]
- Total annual production capacity for corrugated containers: 10 billion square fe[et][1]
- Approximately 4,000 employe[es]

[1] Represents 100% of Norampac's production capacity

accomplishments in 2000

Corporate-wide

– Inclusion in the Dow Jones Sustainability Group Index
– Total capital expenditures within annual depreciation
– Quality and productivity improvements totaling $35 million net of inflation
– Launch of program to upgrade enterprise resource planning system
– 70% of employees participated in management by commitment program
– Organization of 100 Kaizen continuous improvement workshops involving more than 3,000 employees
– Signing of long-term labor agreements

Papers

Products and services

– Acquisition of Ris Paper Company Inc.
– Successful launch of e-PAPER™
– Four independent distributors join U.S. Network
– Introduction of several new products (Color Copy, Laser Opaque, Luna Digital, Lighthouse Gloss, and a wide variety of technical and specialty grades)

Operations

– Threefold increase of sales related to papers used in annual reports
– Record shipments at Cornwall, Ottawa-Hull and Vancouver mills
– Production records reached at the Windsor and Cornwall paper mills and the Espanola pulp mill

Environmental and social responsibility

– Certification ISO 14001 of Cornwall and Espanola mills
– Full-time production of elemental chlorine free pulps at Espanola mill
– Vancouver mill ranked third safest in Canada
– Espanola mill recorded 2 million hours of work without a lost time accident

Wood

Products and services

– Creation of joint venture with Arkansas-based Anthony Forest Products
– Customized lumber sizes and grades

Operations

– 20% increase in shipments of value added lumber
– 25% of lumber sales conducted under long-term contracts
– New agreement to supply Home Depot Canada
– Launch of an investment program to improve fiber recovery and ability to produce value added lumber
– Launch of process to certify all mills ISO 9002

Environmental and social responsibility

– ISO 14001 certification for practices in the Spanish Forest in Ontario
– Forest Stewardship Council (FSC) certification for practices on lands in the State of New York
– Participation in process to establish FSC standards for Canadian boreal forests
– Launch of Internet application to permit public viewing and comment on forest management plans
– Signature of protocol with Rocky Bay First Nation in Ontario to increase involvement in forestry operations

Seven milestones have been selected to highlight our performance since 1997. But being invited, once again this year, to be part of the prestigious 200-member Dow Jones Sustainability Group Index (DJSGI)–recognizing Domtar's overall financial, environmental, ethical and social performance–in itself goes a long way towards summarizing our efforts and achievements of the last four years.

Milestones reached in 2000.

16%

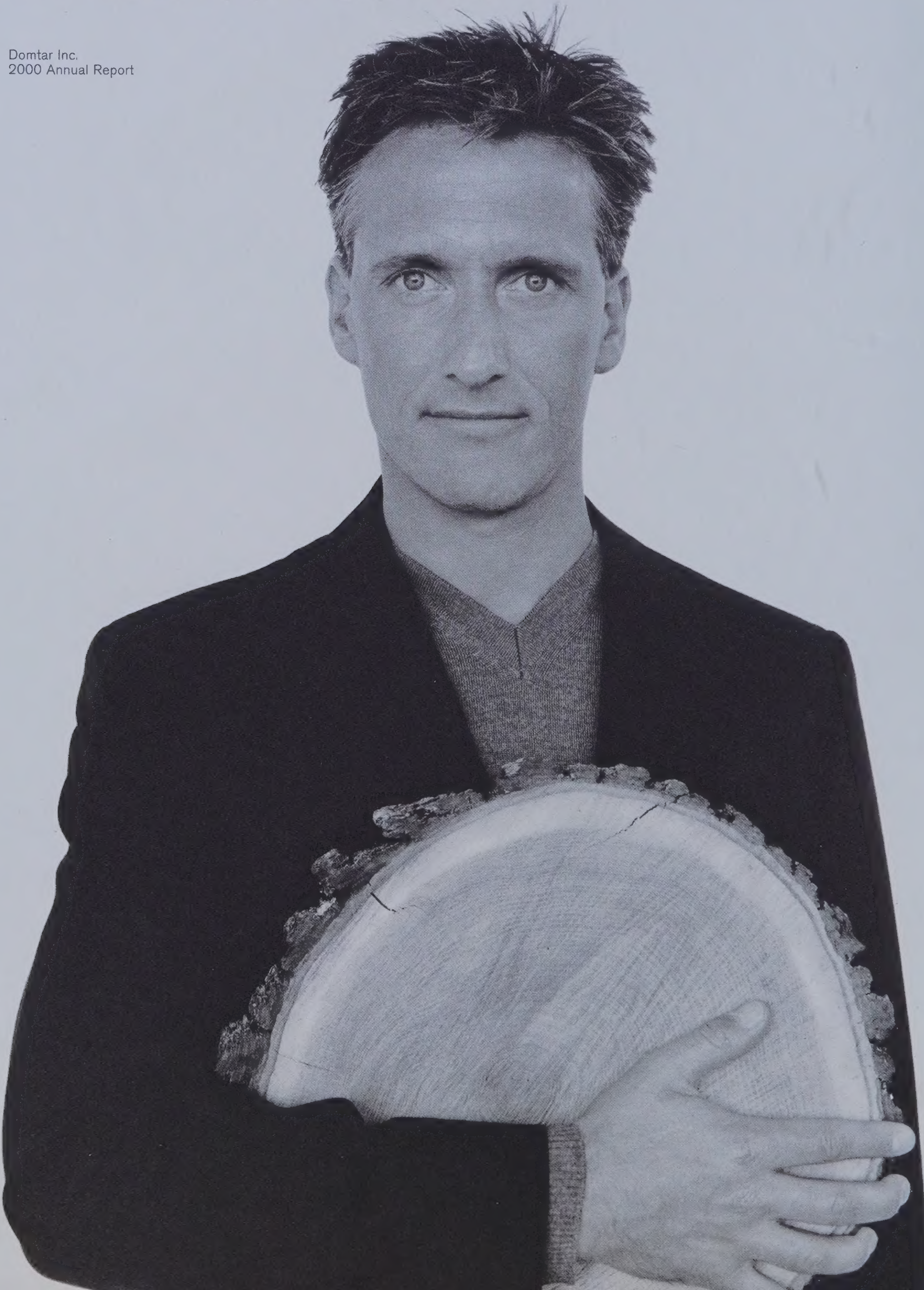
ROE in 2000

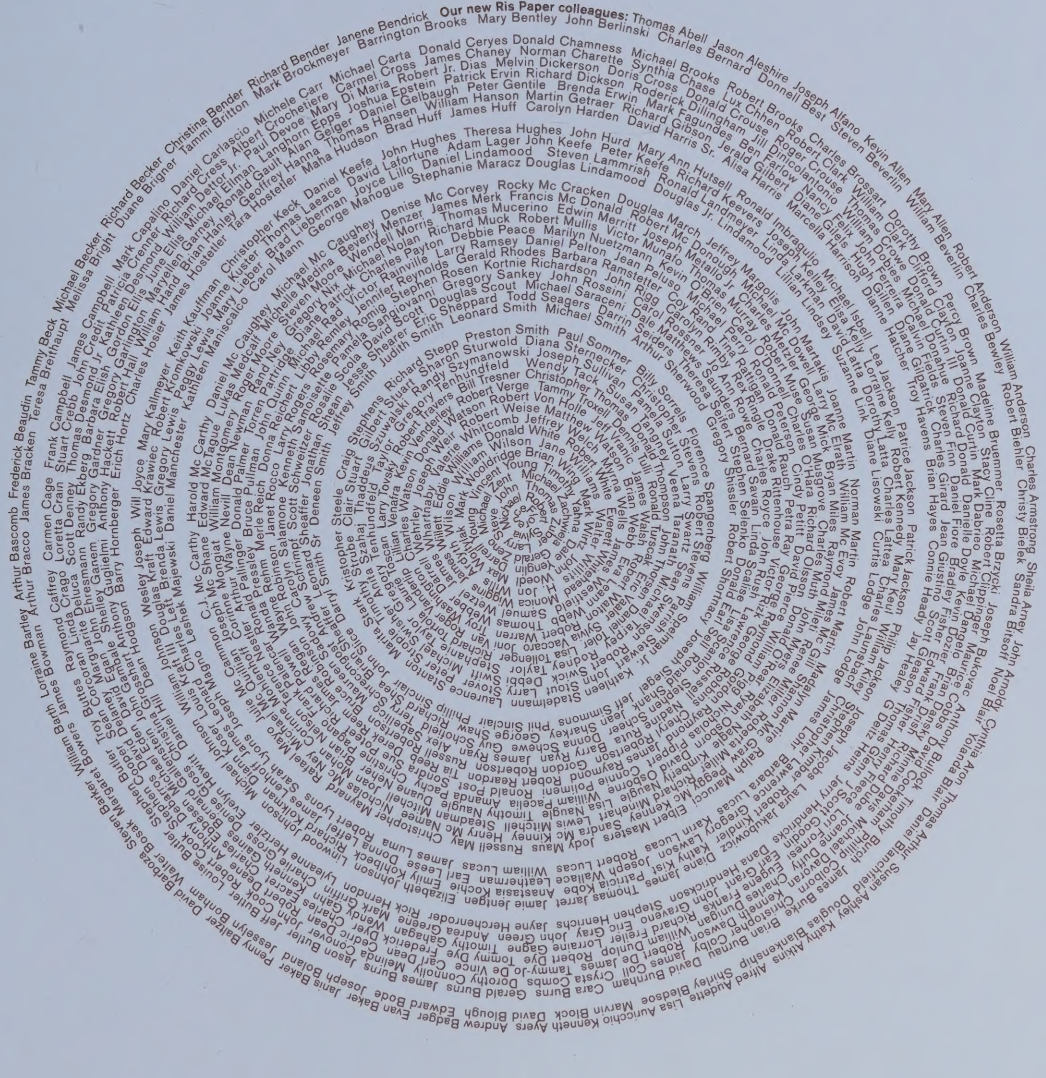
Ranking among top performers. In 1997, we took a bold initiative by promising to deliver a 15% return on equity (ROE) to shareholders over a business cycle. Moving returns from 1% to 16% in just four years is an accomplishment which makes us proud. This is quite an achievement, given that we rose from ranking 22nd of 23 companies in our industry, to being one of the top performers in North America over the same period. This is all the more impressive when one considers that Domtar is leveraged at 35% while the industry average is more than 50%.

$3.6

billion in net sales

Growing on solid ground. Our top line has almost doubled since 1997. Expanded product lines resulting from the E.B. Eddy acquisition, as well as our strong new product development initiatives, are responsible for much of this. Credit must also be given to Norampac Inc., our joint venture with Cascades Inc., the Ris Paper acquisition and to our new customer-driven service introductions in many areas. In the end, more and better products and services have added up to a stronger and broader customer base, more loyalty, and of course, more sales.

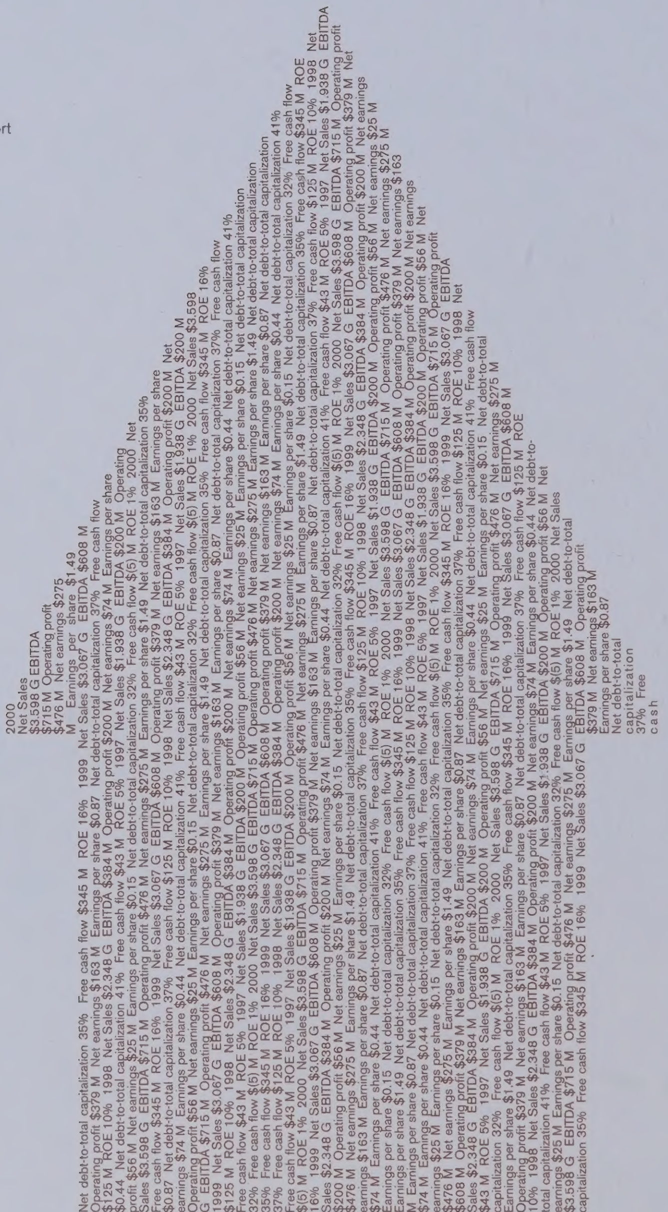




11x

increase in net earnings

Moving more to the bottom line. Domtar raised net earnings from $25 million in 1997 to $275 million in 2000. Our ability to enter into profitable acquisitions and partnerships largely contributed to this turnaround. Better sourcing of supplies and enhanced productivity–achieved through a program that increases quality and efficiency in all our segments–have generated improvements worth $230 million net of inflation since 1997. This improvement in cost structure combined with a broader, deeper, and higher quality product and service offering have brought more revenues to the bottom line.



$345
million in free cash flow

Positioning for opportunity. Domtar's situation went from a negative free cash flow of $5 million in 1997 to a positive free cash flow of $345 million in 2000. Higher profitability and a rigorous discipline of limiting net capital expenditures to our annual depreciation, permitted Domtar to reduce its debt and buy back common shares. With a current net debt-to-cap ratio of 35%–well under our industry's average and below last year's numbers despite the acquisition of Ris Paper–we are keeping our balance sheet strong and options open.

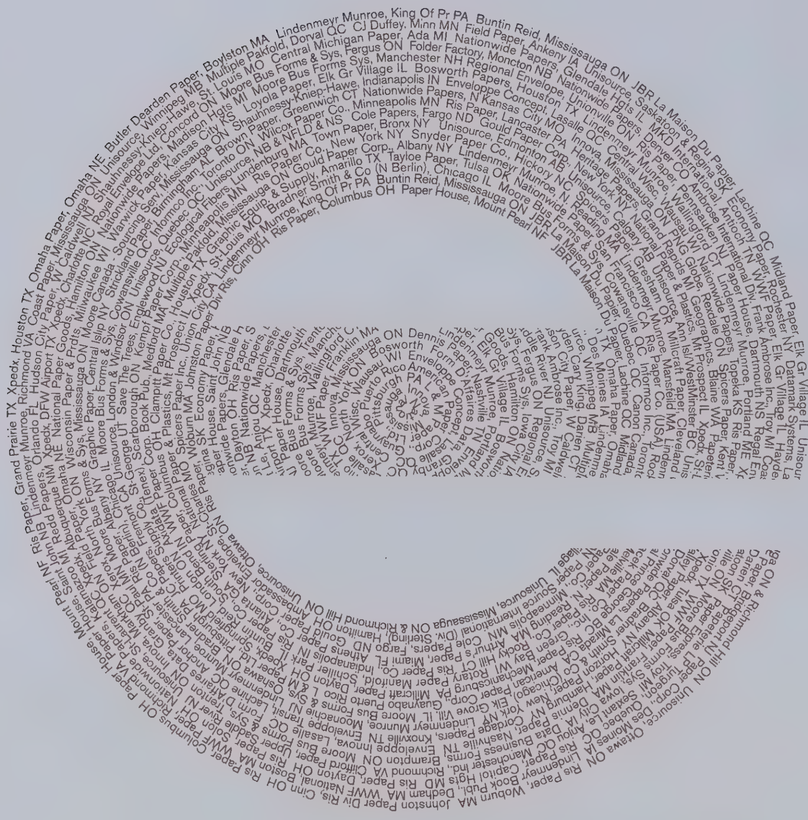
Ris Paper acquisition

Choosing our partners. Domtar is carefully making the acquisitions and forming the alliances that fit perfectly with its efforts to better serve customers. Extending relations with independent distributors over the past four years and acquiring Ris Paper last July, Domtar now has 350 points of service across North America. In the Wood Products Division, creation of a joint venture with Arkansas-based Anthony Forest Products will allow us to provide engineered wood products and broaden our appeal to lumber merchants.

Our launch of

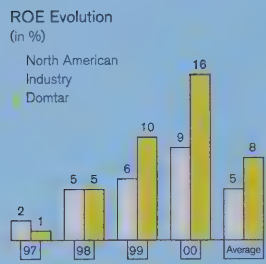
e-PAPER™

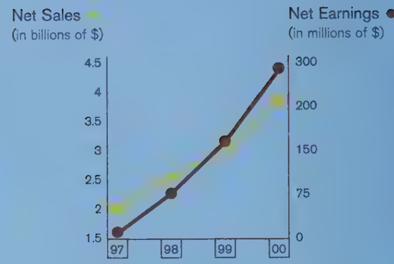
Embracing the new. Domtar is fully leveraging the Internet revolution. e-PAPER™, which was successfully launched in 2000, supports merchants and distributors from ordering to shipment tracking. In addition, new and comprehensive lines of business and printing paper grades now address both a strong consumer demand for special papers to use with personal computers, and the introduction of digital presses in print shops. As well, an industry-first web site application allows for public viewing and comment on our forestry operations.



Just-in-time delivery

Reinventing how we do things is our corporate culture. With just-in-time harvesting, almost 90% of wood reaching our sawmills is fresh, thus, easier to transform. Fiber segregation is facilitating production of unique pulps for very special applications. Precise recipes permit us, among other things, to make brighter and whiter papers. Also, our strategically designed paper distribution network is able to guarantee delivery in less than 48 hours to most major North American cities. In the end, all is driven by a determination to constantly provide more value to our customers.





Letter to Shareholders

On behalf of every member of our team, we are proud to present the company's achievements for the year 2000. These results are the best since January 1997, when we implemented a major program designed to make Domtar one of the leading North American paper companies.

In fact, in fiscal year 2000, Domtar posted a net earnings of $275 million, and a 16% return on shareholders' equity (ROE). These results are all the more significant when we look at the progress made by Domtar from 1997 to 2000, and compare Domtar's ROE with the industry average over the past four years, as illustrated in the table above.

These four years marked a period of change that altered the way we think and act. We took another look at our workforce training programs, manufacturing processes, product development and distribution system, and we worked on our corporate culture and on our attitudes. We went from being "production-oriented" to being "customer-focused", and customer satisfaction became our main performance criteria.

This way of looking at things, this dynamic approach and customer focus have become a driving force in our operations and can be seen at every level of the company.

Our Three Areas of Operations

Domtar has operations in three segments: papers, wood and packaging. Each segment has many different products that reflect market trends and meet consumer demands.

Papers segment

The year 2000 was an excellent year for both the Communication Papers Division and the Eddy Specialty Papers Division. Record sales were posted for many products, including the Plainfield and Cornwall Coated Cover lines, as well as technical papers for the medical field.

Both of these divisions are continuing to focus on developing new products that meet the most exacting needs of consumers. In fact, last year, the Communication Papers Division introduced two new business papers, Domtar Color Copy and Domtar Laser Opaque, and the Eddy Specialty Papers Division introduced Lighthouse, a new type of coated paper.

We are especially proud of the expanded line of papers we introduced this year. Every time, sales of these new products surpassed expectations and, every time, our sister divisions worked together on joint projects, such as the introduction of Luna Digital by the Vancouver mill, a paper that targets the digital press market.

Domtar's Management Committee from left to right:
Lance Skerratt, Gilles Pharand, Craig McManus, George Kobrynsky,
Raymond Royer, Roland Gagnon and Christian Dube.

Our customer focus also steadily improved our customer support. For example, in January 2000, we launched e-PAPER™, the first comprehensive e-commerce application in our industry. Using this application, merchants and independent distributors can communicate with Domtar through the Internet. Our customers can check inventory, place orders and track them until they are delivered. Six months after e-PAPER™ was launched, our entire target clientele had registered to use the on-line service and by December 2000, one tenth of all activities for business and printing grade papers were carried out on the Web.

In addition to introducing e-PAPER™, we focused on in-time delivery so that we could service our customers in most major North American cities within 48 hours.

Lastly, in an effort to further strengthen our position in the central United States, we acquired Ris Paper Company, Inc., a well-regarded paper merchant in that area, and welcomed the Ris Paper employees into the Domtar team.

Wood segment

Despite very low lumber prices in 2000, the demand for our products was still good, and we had no surpluses in our inventory. We are especially proud of this since it clearly illustrates the effectiveness of our strategy, that is, to provide our customers with the very best products and services, delivered in-time.

Two years ago, the Wood segment implemented a rigorous action plan that focuses on fiber recovery, an expanded product line, and in-time delivery to customers. The results to date are very encouraging. Twelve percent of our shipments are now in added value products like Premium, MSR and J-Grade, an increase of 20% over last year.

In terms of fiber recovery, in 2000, we produced 1.1 billion board feet using the same volume of wood as that used in 1998 to produce 900 million. Our goal is to have the capability to produce 1.5 billion board feet by the year 2002, as well as increase the amount of added value products, using the same volume of wood as in 1998. The achievement of this goal should allow Domtar to be profitable even when price conditions are similar to those of December 2000. Finally, we make it a point to respect deadlines, which is fostering greater loyalty among our customers, who now purchase 25% of our lumber under long-term contracts.

Packaging segment

Domtar owns a 50% share in Norampac Inc., a company managed by Cascades Inc., our business partner in this joint venture created at the end of 1997. In 2000, favorable market conditions, combined with strict controls over productivity and performance, enabled Norampac to provide Domtar with an operating profit of $100 million, the highest since this joint venture was launched.

Favorable Trends for Domtar

The predictions of a paperless office have not materialized. In fact, according to a survey published in 1999 by the Boston Consulting Group[1], the demand for business papers will double by 2003, compared to 1996. Oddly, it is personal computers and the Internet that are generating this new demand. Consumers are using new types of printers for very specialized applications. They want to print high-quality photographs and high-resolution color graphics that require specially designed and manufactured papers.

Our vast expertise in printing and specialty papers, as well as our access to quality and varied fiber, are helping us with our pro-active efforts to be closer to our customers, and have helped us launch new papers, such as Plainfield Digital and Luna Digital, for digital presses.

We are bringing the same attention to technologies that facilitate communication and help us serve our customers better. For example, we are working very closely with our merchants and distributors to give them timely access to e-PAPER™'s broader functionalities, via their own enterprise resource planning systems.

In addition, we plan to make significant investments over the next three years in order to ensure that all our in-house systems are compatible with those of our customers. Then, all our customers can become part of an integrated supply chain management system.

1 *"Paper and the Electronic Media: Creating Value from Uncertainty"*. September 1999.

They will have access to our production planning, be able to order products that meet their specifications, and set delivery dates and locations that suit their needs.

Finally, our recent achievements and our management philosophy provide an excellent spring board for accelerated growth. All our partnerships and all the acquisitions we have made since 1997 have translated into added value for our shareholders, and have enabled us to provide our customers with more high-quality products and services. Higher sales and our firm commitment to work diligently to improve quality and productivity, and our strong desire to keep capital expenditures within annual depreciation costs have significantly improved our free cash flow. Armed with this new flexibility, we have reduced our debt and bought back common shares, placing the present net debt-to-total-capitalization ratio at 35%.

With its solid balance sheet and well planned acquisitions, Domtar has everything it needs to double its sales. We are looking closely at business opportunities (joint ventures, alliances and acquisitions) that would allow us to build upon our product line in order to provide our customers and shareholders with increased value.

In Harmony with Our Environment

Determined to have more stringent forestry and environmental practices, we are continuously revising our forest and environmental policies to ensure that we adopt best practices in all our operations. To this end, we have implemented a major program to obtain ISO 14001 certification for the procedures used in our mills, as well as the practices used in all forests managed directly or indirectly by Domtar. Already, in 2000, the Spanish Forest and our Cornwall and Espanola mills were certified.

Taking a similar attentive approach with respect to the concerns of people who are interested in forestry practices and who might be affected by our operations, we have set up advisory committees of key forestry stakeholders to help us design new ways of operating in the forest. We have also provided public on-line access to all our forestry management plans so that anyone can consult them at any time.

Committed to Succeed

The terms used to describe the environment in which we work are not always the most appropriate. For example, the term "cyclical" is widely used to describe the paper and wood product industry. We are well aware of this, which is why we have devoted so much energy to reduce costs and to create a mix of products and services that help minimize the fluctuations in each product cycle and, stabilize the company's sales and improve its profits.

The results obtained since implementing our strategy, and the continued support we have received from our employees have had a stimulating effect throughout the company. We would like to take this opportunity to express our sincere gratitude to all our employees for their professionalism and the quality of their commitment, which was obvious in their enthusiastic participation in the continuous improvement workshops and the company's stock ownership plan. We also wish to express our thanks to our Board of Directors for their keen interest in our company, their comments and their counsel.

In closing, we would like our shareholders to know that we are enthusiastic about Domtar's dynamic approach and its potential, and to assure them that we will indeed make our company one of the leading paper and wood product producers in North America.

Jacques Girard

Chairman of the Board
Jacques Girard

Raymond Royer

President and Chief Executive Officer
Raymond Royer

Looking ahead

Domtar

3 years
5 objectives

The 134 members of the Domtar management team met in Montreal in January 2001 for their annual meeting to look at new ways to broaden product lines, improve quality and strengthen customer service.

1.

enhance
customer loyalty

1.

why

At Domtar, customers are one of our three pillars, along with shareholders and employees. In this context, our goal is to have a long-term relationship based on mutual trust with all customers. We will therefore continue to give our customers the products and services that they themselves need to become suppliers of choice to their own clients. We believe that by doing so we enhance their loyalty, and, in turn, improve our own ability to maintain a good financial performance, even in softer market conditions.

how We will continue to further improve and broaden our products and services. More contact with end-users of our products will allow us to anticipate the needs of our own customers. We will also invite customers to drive product and service development by permitting them to *pull* products that meet their specific needs. Strengthening our distribution network will result in a more flexible and higher-performing delivery system, which will also help our customers manage their inventories even more effectively by ensuring in-time delivery. Putting the technology in place that facilitates customer access will complete our efforts to offer them a fully-integrated supply chain management system.

in 2001 We will simplify our sales and marketing structure for business and printing paper grades in order to offer one-stop-shopping to customers. We will introduce the second generation of our comprehensive e-PAPER™ services, to further benefit our customers with new direct access from their own Enterprise Resource Planning (ERP) platform. ERP systems in the Papers segment will be upgraded and introduced in the Wood segment, in order to eventually offer all customers access to a fully-integrated supply chain management system. A new corporate Web site will facilitate and strengthen customer relationships across all our areas of activity.

To reinforce our preferred supplier status, we need to further expand the depth and scope of our product lines. That is why we will seek to double our size.

2.

double

our size

2.

why

With a movement towards fewer companies in our industry, a larger and more profitable Domtar will also be even more attractive to customers and investors. More specifically, a bigger Domtar can more easily expand across its product lines and maximize the use of its production capabilities. And, broadening our appeal through greater depth and selection will boost our ability to achieve preferred-supplier status with more quality customers.

how Building on the success of the E.B. Eddy and Ris Paper acquisitions, as well as the Norampac joint venture, which permitted us to double our sales in just four years, we will pursue business opportunities that will allow us to broaden our appeal to customers and provide a superior return to shareholders. At the same time, we will continue our efforts to accelerate internal growth by launching more new products and services that meet the needs of our customers.

in 2001 We will continue to meet with and search for potential partners who will permit us to further accelerate our profitable growth, and to better serve our customers. At the same time, we will continue to grow and expand our current activities. For example, equipment upgrades at the Windsor mill will further increase the quality of its papers. A single sales and marketing team will be formed to focus on business and printing paper grades, specifically targeting our Bravo™ and Luna™ coated papers made at the Vancouver mill.

Twenty in-forest *Kaizen* continuous improvement workshops involving more than 400 employees and sub-contractors, like this one in White River, Ontario, will be held during 2001.

3.

add $100 M to improvement program

3.

why

While improving efficiency means transferring more revenues to our bottom line, it's essentially about providing our customers with more, and better quality added value products. In doing so we reap the benefits of greater satisfaction, stronger bonds and increased sales. In the end, higher quality and more added value products mean more loyal customers. This, combined with lower costs, will produce superior returns for our shareholders.

how We will continue to review operations in the forest and at sawmills in order to further improve the use of fiber. We will ensure that we maintain the best product mix possible for our customers by evaluating on a regular basis the performance and flexibility of each of our paper machines. In coordinating our purchasing practices, we will more easily reach partnership agreements with our suppliers. Finally, we will involve even more employees in our efforts to reduce costs and improve quality, which, in turn, also helps foster and maintain a stable labor environment.

in 2001 We aim to achieve one third of our total improvement objective this year. We will intensify the use of statistical process controls to ensure that we maximize the use of our production capabilities. We will continue to call on the ingenuity of employees through our highly successful *Kaizen* continuous improvement workshops. We will maximize the efficient use of energy in order to reduce costs by completing the Windsor co-generation project, looking into similar projects at other mills and reviewing all other energy intensive activities in order to reduce consumption. We will strive to raise sawmill fiber recovery by an additional 5% and further improve our ability to manufacture added value lumber. Finally, we will continue working on synergies expected from the acquisition of Ris Paper.

Domtar's Phenomenal day camps introduce children to the forest and provide the first on-the-job training to the foresters of tomorrow.

4.

continue our good citizenship

4.

why

In addition to looking for the best combination of price, quality and service, consumers expect the companies they buy from to have a rigorous governance system and to behave responsibly. Good performance and self-regulation also help lower or avoid many non-operational costs. The financial community too, is becoming more and more inclined to equate effective environmental and social risk management with solid financial performance.

how Domtar will continue to ensure that its policies always reflect the highest standards. In the forest, we will certify our practices according to ISO 14001 standards and pursue other certifications based on the needs of our customers. In our mills, we will also certify our activities against internationally recognized standards such as ISO and Responsible Care™. We will demonstrate our commitment to improving environmental performance by verifying the effectiveness of our efforts through third party audits, regular reporting, and public involvement. Domtar will also take the necessary steps to respect traditional values and the way of life of Aboriginal peoples and support their efforts to develop businesses in the forestry sector.

in 2001 Domtar will obtain ISO 14001 certification for practices in three different forests and participate in the development of Forest Stewardship Council standards for the Canadian boreal forests. We will continue to support the expansion of protected areas in the Provinces of Québec and Ontario. We will also involve key forest users in the development of new forest management plans and facilitate public comment on all our forestry activities through the Web. Providing cultural-awareness training to all employees who interact with Aboriginal peoples, Domtar will involve these communities in the development of new forest management plans and work more with Aboriginal businesses involved in forestry.

5.

maintain our financial return

edge

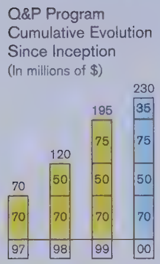
5.

why

A superior return will increase Domtar's appeal and its ability to attract investors. It will also generate a stronger balance sheet, which provides the platform for the company's growth and development.

how Domtar can more readily address issues such as increasing sales and reducing costs by staying focused on core business activities. Domtar will increase its profitability by providing customers with the ability to *pull* products from our mills. By doing so, we will also lower our own inventory and warehousing costs and become more able to immediately respond to new market trends. By pursuing only the most appropriate acquisition, partnership and joint venture opportunities, we aim to position the company to provide a superior return to shareholders under the most competitive of market conditions.

in 2001 Domtar will maintain its financial performance by continuing its efforts to bring added value to customers, reach new markets, and consequently continue to build loyalty. Other key factors contributing to the continued strengthening of the company's bottom line this year will be the generation of quality and productivity improvements totaling approximately $30 million. We aim also to continue to generate strong free cash flow providing the company with greater maneuverability and considerably increasing its options. And, until we make the right acquisition, we will use this flexibility to strengthen our investment grade status notably through our rigorous commitment to limit net capital expenditures to our annual depreciation.



Management's Discussion and Analysis

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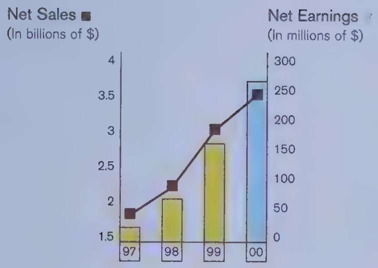
Monitoring Our ROE Performance

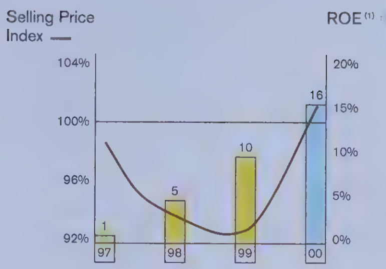
Our Q&P Program

Back in 1997, Domtar launched its Quality and Productivity Improvement Program (Q&P Program), which consists of initiatives designed to increase efficiencies, increase volumes, improve customer and product mix, and reduce costs. It helps us to better address our customers' needs and to increase performance, even during cyclical downturns.

Our Selling Price Index

In order to better understand our performance vis-à-vis fluctuations in the selling prices of our products, a selling price index was developed that represents Domtar's key products. The index is based on benchmark prices in U.S. dollars for some of our key products (taken from publicly available sources) weighted for production volumes. Transaction prices may vary from these benchmarks but they represent a good indication of the market. The year 1996 is used as our base year. Therefore, 1996 pricing is at 100% on the selling price index.





2000 Highlights

Net Sales of $3.6 billion

In 2000, Domtar reported net sales of $3,598 million, a 17% increase over those recorded in 1999 of $3,067 million. The five-month inclusion of the results of Ris Paper (described below), higher average selling prices and increased shipments explain this increase. Effective July 31, 2000, Domtar acquired all of the issued and outstanding shares of Ris Paper Company, Inc. (Ris Paper), a privately held paper distribution company in the United States. The acquisition was aimed at strengthening our distribution network in the United States and improving service to our customer base.

Operating Profit of $476 million

Domtar's operating profit reached $476 million, an increase of 26% compared to 1999. This improvement was a result of price increases in paper, pulp and packaging, and an improvement in shipments of value-added products. These results were, however, offset by significantly lower prices for lumber and an unprecedented increase in energy costs, which rose by $57 million compared to 1999.

In 2000, our Q&P Program generated $35 million of profit improvements. Since its inception in 1997, the benefits generated amounted to $230 million, net of inflation.

Increasing Shareholder Value

In 2000, Domtar reported net earnings of $275 million ($1.49 per common share), a 69% increase over those recorded in 1999 of $163 million ($0.87 per common share). In addition, Domtar delivered a 16% Return on Common Shareholders' Equity (ROE).

Domtar's ROE improved from 1% in 1997 to 16% in 2000 primarily as a result of the $230 million profitability improvement generated from the Q&P Program, from the acquisition of E.B. Eddy, and, to a lesser extent, from an increase in selling prices and a favorable movement in the U.S. dollar compared to the Canadian dollar.

Furthermore, in 2000, Domtar achieved positive Economic Value Added (EVA®), a financial metric used at Domtar to measure performance and to evaluate investment decisions.

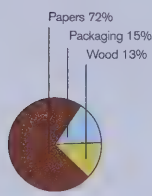
Free Cash Flow of $345 million

Domtar's free cash flow amounted to $345 million in 2000, a $220 million increase compared to the $125 million generated in 1999. The increase arose principally from improved financial results. Free cash flow in 2000 was used mainly to reduce debt and buy back common shares.

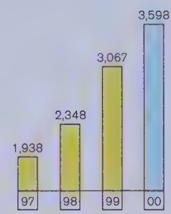
(1) Excludes a non-recurring $17-million after-tax gain realized on the contribution of Domtar's packaging net assets to Norampac in 1997.

The Management's Discussion and Analysis contains statements that are forward-looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Corporation to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general economic and business conditions; product selling prices; raw material and operating costs; changes in foreign currency exchange rates and other factors referenced herein and in the Corporation's continuous disclosure filings.

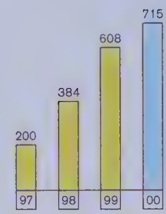
2000 Net Sales:
$3,598,000



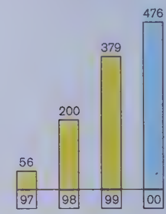
Net Sales
(In millions of $)



EBITDA
(In millions of $)



Operating Profit
(In millions of $)



Summary of Operating Results

Business description

Domtar's activities are based on three segments: Papers, Wood and Packaging (through Norampac Inc., our 50% joint venture with Cascades Inc.).

The Papers segment represents the aggregation of the manufacturing and distribution of papers and pulp. The Communication Papers Division makes and sells business and printing papers. The Eddy Specialty Papers Division focuses on niche end-use markets, producing value-added specialty printing and technical papers. This segment is supported by a large network of Domtar-owned and independent merchants, with over 350 locations throughout North America.

The Wood segment is composed of the Wood Products and Forest Resources Divisions. The Wood Products Division operates sawmills and remanufacturing facilities in the Provinces of Québec and Ontario and sells lumber primarily for residential construction, and value-added products for industrial, remanufacturing and retail uses. The Forest Resources Division manages the Corporation's fibre resources in the Provinces of Québec and Ontario, as well as in the states of New York and Maine.

The Packaging segment comprises Domtar's 50% ownership interest in Norampac, a company that was created when Domtar and Cascades Inc. amalgamated their respective packaging activities in December 1997. Norampac manufactures and distributes containerboard and corrugated products and is managed by Cascades Inc. through a renewable management contract.

Operating results overview

Net sales in 2000 totaled $3,598 million, up $531 million, or 17%, from net sales of $3,067 million in 1999. The five-month inclusion of Ris Paper, higher average selling prices in two of our segments, Papers and Packaging, and higher shipments of value-added products explain this increase. These factors more than offset the impact of significant weaker prices in lumber.

Cost of sales increased by $406 million, or 18%, in 2000 compared to 1999, mainly due to the inclusion of Ris Paper, higher purchased fibre and energy costs, as well as higher shipments. In addition, reorganization charges in the Wood segment and market-related shutdowns affected 2000 results. The impact of these increases was partially offset by operational improvements at manufacturing facilities.

Selling, general and administrative expenses increased by $18 million, or 11% in 2000 compared to 1999. This increase is mainly due to the five-month inclusion of Ris Paper.

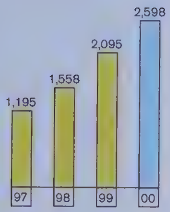
As a result of the factors mentioned above, operating profit improved significantly in 2000 to attain $476 million compared to $379 million in 1999. In addition, earnings before financing expenses, income taxes and amortization (EBITDA) increased to $715 million in 2000 compared to $608 million in 1999.

Operating Profit Analysis (1997 to 2000)

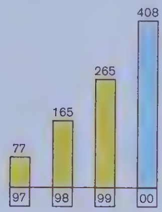
(In millions of $)	1997	1998	1999	2000	1997-2000
	$	$	$	$	$
Operating Profit (prior year)	109[1]	56	200	379	109
Q&P Program improvements achieved	70	50	75	35	230
Energy				(57)	(57)
Price & foreign exchange	(123)	13	30	142	62
Results of acquired businesses		64	74	3	141
Other		17		(26)	(9)
Operating Profit	56	200	379	476	476

(1) Before unusual item

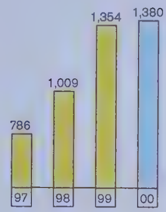
Net Sales
(In millions of $)



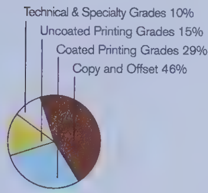
Operating Profit
(In millions of $)



Shipments
Paper in '000 tons



2000 Paper Shipments:
1,380,000 tons



Papers

Sales, Shipments and Operating Profit

Combined net sales of paper and pulp amounted to $2,598 million, an increase of $503 million, or 24%, compared to 1999. This increase was primarily due to the five-month inclusion of Ris Paper, as well as to higher selling prices for paper and pulp and higher paper shipments.

Operating profit for the Papers segment amounted to $408 million, a 54% increase compared to $265 million in 1999. Despite being impacted by higher energy prices, the Papers segment was able to increase its profitability in 2000 due to the increase in selling prices of paper and pulp, as well as increased volumes and better customer and product mix.

Pricing Environment

The strong demand for copy and offset experienced at the end of 1999 continued, allowing for the implementation of price increases in the first half of the year. The transaction prices for 50 lb offset rolls and 20 lb copy sheets increased by 12% on average compared to 1999.

Average transaction prices for coated printing grades increased by 4% compared to 1999 primarily due to stronger demand. This price increase was achieved despite high volumes of imported coated papers entering the North American market as a result of a strong U.S. dollar.

Average transaction prices for uncoated printing grades and technical & specialty grades increased on average by 8% in 2000 compared to 1999.

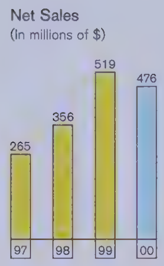
The price for market pulp continued to improve throughout the first half of the year. Overall, the average transaction prices for Northern Bleached Softwood Kraft (NBSK) pulp and Northern Bleached Hardwood Kraft (NBHK) pulp increased by 30% and 50%, respectively, in 2000 compared to 1999.

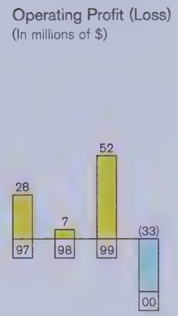
Overall, the 2000 pricing environment in the Papers segment approximated pricing experienced during 1996, the base year used in our selling price index.

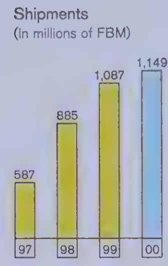
Production Efficiency

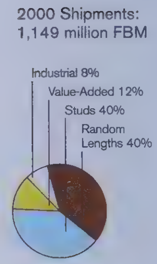
In the Papers segment, efforts to improve our competitiveness continued as further production efficiencies and cost reductions were achieved. The rebuild of the #14 paper machine at the Ottawa-Hull mill, which was completed in the first quarter of 1999, resulted in improved quality and several production records being set in 2000. The Cornwall mill achieved significant improvements in 2000 delivering record production volume and, at the same time, improving the quality of its paper. Other initiatives were undertaken to further reduce costs and optimize energy use, such as a cogeneration project at the Windsor mill, which is scheduled to be operational by the end of 2001.

The Espanola pulp mill continued to benefit from strategic capital investments made over the last few years to modernize its hardwood pulp line. The hardwood chip storage and reclaim system, which was completed in 1999, now allows for the manufacturing and marketing of single species premium maple, birch and aspen pulps.









Wood

Sales, Shipments and Operating Profit

Net sales in the Wood segment amounted to $476 million, a decrease of $43 million, or 8%, compared to 1999. This decrease was a result of the significant drop in the selling prices for lumber, partially offset by higher shipments.

The operating loss amounted to $33 million in 2000 compared to an operating profit of $52 million in 1999. The operating profit decreased largely due to the drop in selling prices, as well as to reorganization charges incurred during the year, partially mitigated by higher efficiencies and improved fibre recovery.

Pricing Environment

The prices experienced in the first quarter of the year were relatively strong, benefiting from favourable market conditions that prevailed at the end of 1999. Market conditions subsequently deteriorated as a result of the imbalance between consumption and production capacity and a reduction in housing starts. According to Resource Information Systems Inc. (RISI), North American softwood lumber capacity in 2000 was estimated to be 73 billion board feet, compared to a demand of 65 billion board feet. The average transaction prices for Great Lakes 2x4 kiln-dried studs and random lengths decreased by 16% and 19%, respectively, compared to 1999, or an average drop of US$60 per thousand board feet.

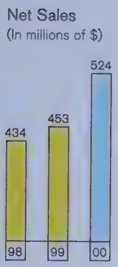
Overall, the 2000 pricing environment in the Wood segment is well below pricing experienced in 1996, the base year used in our selling price index.

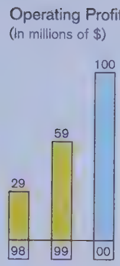
Production Efficiency

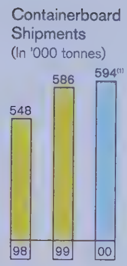
During the last year, the Wood Products Division made substantial progress as a result of work-reorganization projects that had begun in 1998. The division also initiated its plan to modernize its sawmills. The modernization plan is on schedule and Domtar should continue to see additional benefits in 2001.

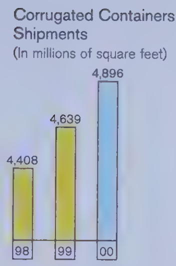
The Wood Products Division increased its softwood lumber recovery rate by 7% in 2000, thereby ensuring a more efficient use of fibre resources and better quality products. In addition, the division's product mix improved as evidenced by the shipments of value-added products which tripled in two years to reach 12% of total volume in 2000.

The Forest Resources Division reaffirmed its commitment to delivering recently harvested quality wood to sawmills and pulp mills, in order to reduce fibre inventory levels and improve end product quality. The division ended the year achieving 86% of deliveries comprised of wood that was less than three months old. In addition, species sorting, which began in 1998, continued to progress allowing the Espanola pulp mill to begin manufacturing and marketing single species premium pulps. Furthermore, in 2000, the division certified two of its forests: one forest obtained ISO 14001 certification and the other obtained Forest Stewardship Council (FSC) certification.









Packaging

Sales, Shipments and Operating Profit

Domtar's 50% share of the net sales of Norampac amounted to $524 million, an increase of $71 million, or 16%, compared to 1999. This was primarily due to higher selling prices, as well as by an increase in both containerboard and corrugated containers shipments.

Domtar's share of Norampac's operating profit amounted to $100 million, an increase of $41 million, or 69%, from $59 million in 1999. This notable improvement is largely driven by higher average selling prices for linerboard, partially offset by the higher cost of purchased secondary fibre and energy.

Pricing Environment

The favourable market conditions that prevailed at the end of 1999 helped set the stage for further price increases in the first half of the year. Reduction in supply by industry participants in the latter half of the year allowed product prices to remain stable, despite a slight fall in demand for containerboard. The average containerboard transaction price increased by 17% compared to 1999. The selling prices for corrugated containers followed the improving trend set by containerboard.

Overall, the 2000 pricing environment in the Packaging segment is well above pricing experienced in 1996, the base year used in our selling price index.

Production Efficiency

During the year, Norampac's key mills set production and profitability records, despite taking market-related downtime. In addition, Norampac increased productivity and improved its customer and product mix.

Financing Expenses and Income Taxes

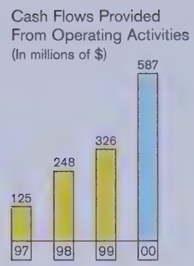
Financing expenses

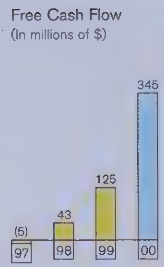
During 2000, financing expenses, net of interest income, were $101 million; a $10 million decrease compared to 1999, primarily as a result of lower debt levels. It should be noted that while our credit facilities have floating interest rates, the remainder (approximately 75%) of our debt has fixed rates.

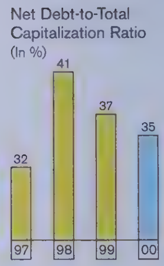
Income taxes

The income tax expense of $105 million for 2000 represents an effective tax rate of 27.6% compared to 40.7% in 1999. The decrease in the effective tax rate is due to the application of a new accounting standard for income taxes that came into effect January 1, 2000 as well as a reduction in income tax expense arising from a reduction in taxation rates in the Province of Ontario. In addition, following a management decision to optimize its Canadian tax structure, Domtar reevaluated its future income tax assets, which had a positive impact on our effective tax rate in 2000.

(1) Approximately 45% of these shipments are used internally.







Liquidity and Capital Resources

In 2000, Domtar generated cash flows from operating activities of $587 million, an 80% increase over the amount generated in 1999. The increase was mainly due to improved operating results, as well as to proceeds of $60 million received from the sale of accounts receivable.

Net capital expenditures amounted to $242 million in 2000, a $41 million increase over the 1999 level, primarily resulting from strategic investments made by Norampac.

As a result, free cash flow (cash flows from operating activities less net capital expenditures) in 2000 totaled $345 million compared to $125 million in 1999. Free cash flow in 2000 was applied to providing return to shareholders in the form of dividends and buying back 6.3 million common shares (totaling $106 million, net of share issuances) and net debt reduction of $170 million.

As at December 31, 2000, Domtar's net debt-to-total-capitalization ratio was 35%, compared to 37% at the end of 1999. Net indebtedness, including our 50% share of the net indebtedness of Norampac ($157 million), was $996 million compared to $1,056 million on the same date in 1999.

In November 2000, Domtar replaced its revolving credit facilities totaling $600 million with a $500-million revolving credit facility maturing in November 2003. As at December 31, 2000, $212 million was drawn under the facility and letters of credit totaling $8 million were outstanding. On the same date in 1999, $241 million of our $600-million bank credit facilities were drawn and letters of credit totaling $10 million were outstanding. The reduction in the utilization of the Domtar credit facilities reflected improved free cash flow including the sale of accounts receivable, offset by payments to shareholders in the form of dividends and share buy-backs, as well as drawings to repay $91 million of debt assumed upon the acquisition of Ris Paper in July 2000.

1999 Compared to 1998

Net sales in 1999 totaled $3,067 million, up $719 million, or 31%, from those of $2,348 million in 1998. This increase was mainly due to the full year inclusion of E.B. Eddy's sales compared to five months in 1998 as well as to higher shipments, which resulted mainly from improved machine efficiencies and new product development. Weaker prices in our main segment of activity, Papers, were offset by higher average selling prices in the Wood and Packaging segments.

Operating profit improved significantly in 1999 attaining $379 million, compared to $200 million in 1998. This $179 million year-over-year improvement was attributable in great part to the inclusion of E.B. Eddy's operating profit for a full year in 1999 and to the results of our Q&P Program, which generated $75 million, net of inflation. Although overall average selling prices for our products and the average U.S. dollar spot rate were practically unchanged year-over-year, we did benefit from a more favourable effective exchange rate in 1999 due to the positive year-over-year impact of our foreign exchange hedging program.

In 1999, Domtar reported net earnings of $163 million ($0.87 per common share) compared to net earnings of $74 million ($0.44 per common share) in 1998 and achieved a 10% ROE compared to 5% in 1998.

Risks and Uncertainties

Prices, Economic Conditions and Competition

Domtar's operating results are sensitive, among other things, to fluctuations in the prices of certain products. The markets for papers, pulp, lumber and packaging products are cyclical and are influenced by a variety of factors beyond Domtar's control. Such factors include periods of excess product supply due to industry capacity additions, periods of insufficient demand due to weak general economic activity in North America or international markets, inventory destocking by customers as well as fluctuations in currency exchange rates.

The markets that Domtar serves are large and highly fragmented, with a number of substantial companies operating in each sector. There are numerous competitors, and the major markets, both North American and international, in which Domtar sells its principal products are very competitive. These products are in competition with similar products produced by others, and in some instances, with products produced by other industries from other materials.

Domtar's exports of lumber to the United States may be adversely affected by any new arrangement between Canada and the United States with respect to Canada's exports of softwood lumber to the United States. The current agreement, which matures on March 31, 2001, resulted in export taxes being imposed on Canadian lumber producers if certain export volumes to the United States are exceeded. There can be no assurance that Domtar may not experience reduced revenues and margins in its wood business as the result of any new arrangement.

In addition, operating costs for Domtar's businesses can be affected by increases or decreases in energy and raw material prices as a result of changing economic conditions or due to particular supply and demand considerations.

Domtar believes that the impact on operating profit is partially mitigated by the fact that there are different price sensitivities within each product group. For example, technical & specialty paper grades are less affected by market fluctuations than copy and offset papers. (See sensitivity analysis.)

Foreign exchange

Domtar's exposure to the value of the Canadian dollar versus the U.S. dollar is a significant risk to its business. Domtar's principal products are sold in the United States in U.S. dollars, or sold in Canada at prices that are determined by reference to the delivered prices of its U.S. competitors' products. Therefore, any increase or decrease in the value of the Canadian dollar relative to the U.S. dollar reduces or increases the amount of Canadian dollar revenues realized by Domtar on sales of its products.

Domtar hedges the value of a portion of its future U.S. dollar net cash inflows for periods of up to three years in order to reduce the potential negative effect of a strengthening Canadian dollar. Domtar's hedging arrangements as at December 31, 2000, which are detailed in Note 14 to the Consolidated Financial Statements, would protect the value of part of Domtar's expected net U.S. dollar cash inflows at an average exchange rate of $1.45 Canadian for the next three years. (See sensitivity analysis.)

Environment

Domtar is subject to environmental laws and regulations enacted by federal, provincial, state and local authorities in Canada, in the United States and in France. In 2000 and 1999, Domtar made capital expenditures of $7 million and $12 million, respectively, mostly for the improvement of air emissions.

Under its Care and Control Program, Domtar is continuing to take remedial action at a number of former operating sites relative to possible soil, sediment or groundwater contamination.

As at December 31, 2000, Domtar had a provision of $41 million for known and determinable site remediation costs primarily in connection with its former wood preserving business. Furthermore, Domtar is party to some environmental claims, actions and lawsuits that are being contested. The process of investigation and remediation can be lengthy and is subject to the uncertainties of changing legal requirements, developing technologies and the allocation of liability among potentially responsible parties.

Legal actions

In the normal course of its operations, Domtar becomes involved in various legal actions. While the final outcome with respect to actions outstanding or pending as at December 31, 2000 cannot be predicted with certainty, it is management's opinion that their resolution will not have a material adverse effect on Domtar's financial position or results of operations.

Sensitivity analysis

Our operating profit, net earnings and earnings per share for 2001 can be impacted by the following sensitivities:

(In millions of Canadian dollars except per share amounts)	Operating Profit	Net Earnings	Impact on Earnings Per Share
Each US$10/unit change in price of:*	$	$	$
Papers:			
Copy and offset	10	7	0.04
Coated printing grades	6	4	0.02
Uncoated printing grades	3	2	0.01
Technical & Specialty grades	2	1	0.01
Pulp–net position	4	2	0.01
Lumber	14	9	0.05
Containerboard	10	7	0.04
Foreign exchange			
Cdn 1¢ change in relative value to the U.S. dollar			
after hedging**	2	1	0.01
before hedging	10	7	0.04

* Based on 2001 budgeted volumes (in tons, tonnes or MFBM)

** Based on 2001 hedging portfolio

Benchmark list prices for some of Domtar's key products

	1996	1997	1998	1999	2000
Copy 20 lb (US$/ton)	848	769	780	778	877
Offset 50 lb rolls (US$/ton)	736	756	666	659	757
Coated publication, No. 3, 60 lb rolls (US$/ton)	943	941	909	851	948
Coated publication, No. 1, 70 lb sheets (US$/ton)	1,605	1,580	1,586	1,632	1,666
Pulp NBSK (US$/tonne)	586	588	544	541	685
Lumber 2x4x8 stud (US$/MFBM)	403	383	376	390	316
Linerboard 42 lb (US$/ton)	371	336	373	400	468

Source: Pulp & Paper Week and Random Lengths. No representative external sources for uncoated printing and technical & specialty grades.

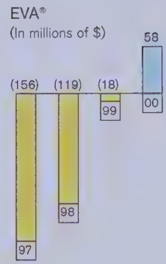
Outlook for 2001

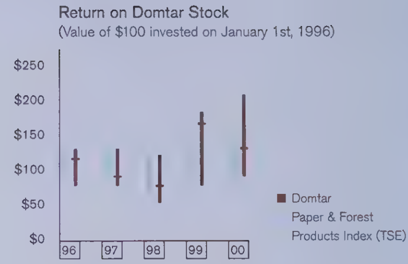
The year 2001 has begun on a challenging note due to a slowing economy, higher energy prices and pressure being felt on pulp and containerboard pricing. Countering these factors are Canadian and U.S. central bank actions to reduce interest rates as well as announced permanent capacity shutdowns and reduced production within the paper and packaging industries to try and maintain a balanced supply and demand equation. Furthermore, a price increase has been announced for copy, offset and other uncoated printing products.

The pricing environment for lumber has been difficult throughout most of 2000; however lower interest rates in the U.S. may cause housing activity to increase in 2001 and provide the basis for an improving lumber market. A new arrangement with respect to softwood lumber exports to the U.S., following the maturity of the Softwood Lumber Agreement with the U.S. on March 31, 2001, is also an important factor that may impact the Wood segment.

Further productivity improvements and cost reductions are expected to continue to improve Domtar's competitive position and are estimated in all our segments to total approximately $100 million, net of inflation, over the next three years.

Domtar has continued to add to its financial flexibility by repaying debt in 2000. The level of debt repayment and share buy-backs expected in 2001 will depend on cash flows and potential acquisitions. Domtar will only consider growth opportunities if value is created for shareholders and provided that a prudent financial structure is maintained.





Economic Value Added (EVA®)

In addition to using Return on Equity as an important financial metric, Domtar also uses EVA® to ensure that its decision-making processes are aligned with the objective of increasing shareholder value. EVA® is used at Domtar to measure performance and to evaluate investment decisions.

EVA® is positive when a company's net after-tax operating profit exceeds a capital charge representing the return expected by the providers of the company's capital. Domtar reviews its cost of capital annually, based on changes in the financial markets.

Domtar's EVA® for 2000 improved by $76 million, from $18 million negative to $58 million positive, due primarily to stronger earnings.

Domtar remains committed to creating long-term shareholder value and will continue to emphasize its efforts in 2001, especially in areas under its control such as the Quality and Productivity Improvement Program and capital management.

EVA® is a registered trademark of Stern Steward & Co.

Common Stock Prices

Quarterly share prices for the common shares of Domtar during 2000 and 1999 were as follows:

	1st $	2nd $	3rd $	4th $
Market price–2000				
Toronto Stock Exchange				
High	22.00	17.45	15.05	13.90
Low	13.50	12.90	12.25	9.90
New York Stock Exchange (U.S.$)				
High	14.81	11.69	10.13	9.19
Low	9.50	8.81	8.25	6.63
Market price–1999				
Toronto Stock Exchange				
High	11.65	14.00	17.90	18.75
Low	8.60	10.85	13.05	14.75
New York Stock Exchange (U.S.$)				
High	7.69	9.50	12.00	12.81
Low	5.69	7.13	8.94	9.94

Management's Statement of Responsibility

The consolidated financial statements contained in this Annual Report are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. Where necessary, management has made judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data included in the consolidated financial statements.

To discharge its responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Corporation's external auditors are responsible for auditing the consolidated financial statements and giving an opinion thereon. In addition, the Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors carries out its responsibility relative to the consolidated financial statements principally through its Audit Committee, consisting solely of outside directors, which reviews the consolidated financial statements and reports thereon to the Board. The Committee meets periodically with the external auditors, internal auditors and management to review their respective activities and the discharge of each of their responsibilities. Both the external auditors and the internal auditors have free access to the Committee, with or without management, to discuss the scope of their audits, the adequacy of the system of internal controls and the adequacy of financial reporting.

Raymond Royer
President and Chief Executive Officer

Christian Dubé
Senior Vice-President and Chief Financial Officer

Montréal, Québec
January 19, 2001

Auditors' Report

To the Shareholders of Domtar Inc.

We have audited the consolidated balance sheets of Domtar Inc. as at December 31, 2000 and 1999 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended December 31, 2000. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Domtar Inc. as at December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2000 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants

Raymond Chabot Grant Thornton
Chartered Accountants
General Partnership

Montréal, Québec
January 19, 2001

Consolidated Earnings

Year ended December 31 (In millions of Canadian dollars, except per share amounts)	2000	1999	1998
	$	$	$
Net sales	3,598	3,067	2,348
Operating expenses			
Cost of sales	2,703	2,297	1,835
Selling, general and administrative	180	162	129
Amortization	239	229	184
	3,122	2,688	2,148
Operating profit	476	379	200
Financing expenses (Note 4)	101	111	91
Amortization of deferred gain	(5)	(5)	(5)
Earnings before income taxes and non-controlling interest	380	273	114
Income tax expense (Note 5)	105	111	42
Earnings before non-controlling interest	275	162	72
Non-controlling interest (Note 3)	–	(1)	(2)
Net earnings	275	163	74
Dividend requirements of preferred shares	3	3	3
Net earnings applicable to common shares	272	160	71
	$	$	$
Per common share (Note 13)			
Net earnings			
Basic	1.49	0.87	0.44
Fully diluted	1.47	0.86	0.42

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Retained Earnings

Year ended December 31 (In millions of Canadian dollars)	2000	1999	1998
	$	$	$
Retained earnings at beginning of year	504	373	333
Cumulative effect of changes in accounting policies (Note 2)	(151)	–	–
Net earnings	275	163	74
Dividends on common shares	(25)	(26)	(23)
Dividends on preferred shares	(3)	(3)	(3)
Premium on purchase for cancellation of common shares	(43)	(3)	(8)
Retained earnings at end of year	557	504	373

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

December 31 (In millions of Canadian dollars)	2000	1999
	$	$
Assets		
Current assets		
Cash	29	3
Receivables, net of allowance for doubtful accounts of $18 (1999 – $13)	404	388
Inventories (Note 6)	546	436
Prepaid expenses	19	19
Future income taxes (Note 5)	30	–
	1,028	846
Investments and advances	30	29
Property, plant and equipment (Note 7)	2,993	2,969
Other assets (Note 8)	216	175
	4,267	4,019
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness	47	48
Trade and other payables (Note 9)	532	504
Income and other taxes payable	20	39
Long-term debt due within one year (Note 11)	41	24
	640	615
Long-term debt (Note 11)	973	1,030
Future income taxes (Note 5)	569	376
Other liabilities and deferred credits (Note 10)	254	207
Commitments and contingencies (Note 12)		
Shareholders' equity		
Preferred shares (Note 13)	51	54
Common shares (Note 13)	1,224	1,234
Retained earnings	557	504
Accumulated foreign currency translation adjustments (Note 15)	(1)	(1)
	1,831	1,791
	4,267	4,019

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board:

Jacques Girard

Jacques Girard, Director

Raymond Royer

Raymond Royer, Director

Consolidated Cash Flows

Year ended December 31 (In millions of Canadian dollars)	2000	1999	1998
	$	$	$
Operating activities			
Net earnings	275	163	74
Non-cash items:			
Amortization	239	229	184
Future income taxes	75	99	1
Amortization of deferred gain	(5)	(5)	(5)
Other	9	1	–
	593	487	254
Changes in working capital items (Note 17)	(6)	(161)	(6)
Cash flows provided from operating activities	587	326	248
Investing activities			
Net additions to property, plant and equipment	(242)	(201)	(205)
Business acquisitions, including cash acquired or bank indebtedness assumed (Note 3)	(22)	(9)	(456)
Receipt of advances	–	16	2
Other	(18)	7	(4)
Cash flows used for investing activities	(282)	(187)	(663)
Financing activities			
Dividend payments	(28)	(28)	(25)
Change in bank indebtedness	(1)	17	(4)
Change in revolving bank credit, net of expenses	(163)	198	3
Issuance of long-term debt, net of expenses	–	–	676
Repayment of long-term debt	(6)	(305)	(479)
Common shares issued (repurchased), net of expenses	(78)	5	(18)
Redemption of preferred shares	(3)	(32)	(12)
Cash flows provided from (used for) financing activities	(279)	(145)	141
Net increase (decrease) in cash and cash equivalents	26	(6)	(274)
Cash and cash equivalents at beginning of year	3	9	283
Cash and cash equivalents at end of year	29	3	9

The accompanying notes are an integral part of the consolidated financial statements.

notes

1.

Summary of significant accounting policies

The consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

Basis of consolidation

The consolidated financial statements include the accounts of Domtar Inc. (the Corporation) and all its subsidiaries and joint ventures (collectively Domtar). Investments over which the Corporation exercises significant influence are accounted for by the equity method. The Corporation's interest in joint ventures is accounted for by the proportionate consolidation method.

Use of estimates

The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, as such, include amounts based on estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

Translation of foreign currencies

For foreign subsidiaries which are considered financially and operationally self-sustaining, the current rate method of translation of foreign currencies is followed. Therefore, all gains and losses arising from the translation of the financial statements of these foreign subsidiaries are deferred in the "Accumulated foreign currency translation adjustments" account under "Shareholders' equity".

1.

Summary of significant accounting policies (continued)

For foreign subsidiaries which are considered financially and operationally integrated, the temporal method of translation of foreign currencies is followed. Therefore, all gains and losses arising from the translation of the financial statements of these foreign subsidiaries are included in "Selling, general and administrative" expenses.

Gains and losses resulting from the translation of foreign currency transactions are included in earnings, except for those on long-term debt denominated in foreign currency. For such debt designated as a hedge of the net investment in self-sustaining foreign subsidiaries, exchange gains and losses are included in the "Accumulated foreign currency translation adjustments" account. For the remaining long-term debt denominated in foreign currency, exchange gains and losses are deferred and amortized over the remaining term of the related obligation.

Cash and cash equivalents

Cash and cash equivalents includes cash and short-term investments with original maturities of less than three months and are presented at cost, which approximates market value.

Inventories

Inventories of operating and maintenance supplies and raw materials are valued at the lower of average cost and replacement cost. Work in process and finished goods are valued at the lower of average cost and net realizable value and include the cost of raw materials, direct labour and manufacturing overhead expenses.

Property, plant and equipment

Property, plant and equipment are stated at cost. Interest costs are capitalized for major capital projects.

For timber limits and timberlands, amortization is provided on the unit of production method. For all other assets, amortization is provided on the straight-line method over the estimated useful lives of the assets. Buildings are depreciated up to 40 years and Machinery and equipment up to 20 years. The amortization expense is reported net of the amount of the amortization of deferred credits related to property, plant and equipment. No amortization is recorded on assets under construction.

Other assets

Other assets are recorded at cost. Expenses related to the issuance of long-term debt are deferred and amortized on a straight-line basis over the term of the related obligation. Goodwill and other assets, if applicable, are amortized on a straight-line basis over periods not exceeding 25 years. Domtar assesses at each balance sheet date whether there has been a permanent impairment in the value of goodwill. This is accomplished mainly by determining whether projected undiscounted future cash flows from operations exceed the net book value of goodwill as of the assessment date.

Deferred credits

Deferred credits comprise the deferred gain on the contribution of net assets to Norampac Inc. and subsidiaries (Norampac), grants and investment tax credits obtained upon the acquisition of property, plant and equipment. The deferred gain on the contribution of net assets to Norampac is amortized on a straight-line basis over 15 years. Grants and investment tax credits are amortized on the same basis as the related property, plant and equipment.

Pension and other employee future benefits

Net periodic benefit costs are determined by independent actuaries. Benefits include defined contribution and defined benefit pension plans, life insurance programs, medical and long-term disability benefits. Domtar amortizes past service costs and cumulative unrecognized net actuarial gains and losses, in excess of 10% of the greater of the projected benefit obligation or the fair value of plan assets, over the expected average remaining service life of the employee group covered by the plans.

Environmental costs

Environmental expenditures, including site remediation costs, are expensed or capitalized depending upon their future economic benefit. Expenditures which prevent future environmental contamination are capitalized and amortized on a straight-line basis over a 15-year period. Expenditures that relate to an existing condition caused by past operations which do not contribute to current or future revenue generation are expensed. Liabilities are not discounted and are recorded when remediation efforts are likely to occur and the costs can be reasonably estimated.

Income taxes

Domtar follows the asset and liability method for accounting for income taxes. Under this method, future tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. The change in the net future tax asset or liability is included in income. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply in the years in which assets and liabilities are expected to be recovered or settled. Domtar does not provide for income taxes on undistributed earnings of foreign subsidiaries as such earnings are being reinvested in foreign operations.

Stock-based compensation plans

Domtar has stock-based compensation plans, which are described in Note 13. No compensation expense is recognized for these plans when shares or share options are issued to plan participants. Any consideration paid by plan participants on exercise of share options or purchase of shares is credited to stated capital.

Financial instruments

Domtar manages its foreign exchange exposure on anticipated net cash inflows in U.S. dollars through the use of options and forward contracts. Resulting gains and losses are recognized when realized and are included in "Net sales". The cost of options is amortized over the hedging period and is also included in "Net sales".

Domtar manages price risk associated with sales of kraft pulp and kraft linerboard and purchases of old corrugated containers through the use of cash settled swap contracts. Resulting gains and losses are recognized when realized and are included in "Net sales" or "Cost of sales".

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

2.

Accounting changes

Adoption of new accounting standard–income taxes

Effective January 1, 2000, Domtar has adopted the Canadian Institute of Chartered Accountants (CICA) recommendations related to the accounting for income taxes. The recommendations require the use of the asset and liability method for accounting for income taxes. Under the asset and liability method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). In accordance with the transitional provisions of the new recommendations, Domtar has applied the recommendations on a retroactive basis without restating prior years. The cumulative effect of the adoption of the new recommendations, a charge of $112 million, has been reflected as an adjustment to opening retained earnings.

Adoption of new accounting standard–employee future benefits

Effective January 1, 2000, Domtar has adopted the CICA recommendations related to the accounting for employee future benefits. The recommendations outline guidance for the accounting for pensions, post-retirement and post-employment benefit costs. In accordance with the transitional provisions of the new recommendations, Domtar has applied the recommendations on a retroactive basis without restating prior years. The cumulative effect of the adoption of the new recommendations, a charge of $61 million ($39 million after tax), has been reflected as an adjustment to opening retained earnings.

3.

Business acquisitions

Ris Paper

Effective July 31, 2000, Domtar acquired all of the issued and outstanding shares of Ris Paper Company, Inc. (Ris Paper), a privately held paper distribution company in the United States. The acquisition has been accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair value as of the acquisition date. Ris Paper's results of operations have been included in the consolidated financial statements from the effective date of acquisition. Details of the acquisition at the effective date are as follows:

	$
Net assets acquired at assigned values:	
Operating working capital, including cash of $1	125
Long-term debt	(102)
Other assets and liabilities	8
	31
Consideration:	
Cash, including transaction fees	7
1,971,861 common shares	24
	31

Assuming an effective date of January 1, 1999 for the Ris Paper acquisition, the unaudited pro forma consolidated net sales of Domtar would have been $4,015 million and $3,830 million for the years ended December 31, 2000 and 1999, respectively. The impact on net earnings and earnings per share would not have been significant.

Laurentide Sheeting Center

Effective August 1, 2000, Domtar acquired all of the issued and outstanding shares of Laurentide Sheeting Center Inc. (Laurentide), a paper converting company, for $6 million cash consideration and the assumption of $3 million of long-term debt. The acquisition has been accounted for using the purchase method. Laurentide's results of operations have been included in the consolidated financial statements from the effective date of acquisition.

Armor-Box

In October 2000, Norampac (a 50-50 joint venture with Cascades Inc.) acquired all of the assets of Armor-Box Corporation, a corrugated products converting plant in the United States, for cash consideration of $20 million (the Corporation's proportionate share being $10 million).

Norkraft Quévillon

On December 16, 1999, Domtar acquired all of the issued and outstanding shares of Norkraft Quévillon Inc. held by a non-controlling shareholder for a cash consideration of $9 million. The acquisition has been accounted for using the purchase method.

E.B. Eddy

On July 31, 1998, Domtar acquired all of the issued and outstanding shares of E.B. Eddy Limited and E.B. Eddy Paper, Inc. (E.B. Eddy), an integrated producer of specialty paper and wood products. The acquisition has been accounted for using the purchase method. E.B. Eddy's results of operations have been included in the consolidated financial statements from the effective date of acquisition. Details of the acquisition at the effective date are as follows:

	$
Net assets acquired at assigned values:	
Assets acquired	
Operating working capital, including bank indebtedness assumed of $16	58
Fair value adjustments to working capital	(108)
Property, plant and equipment	1,027
Other assets	33
Liabilities assumed	
Long-term debt	(75)
Other long-term liabilities	(127)
	808
Consideration:	
Cash, including transaction fees	440
35,714,286 common shares	368
	808

The purchase agreement includes a purchase price adjustment whereby, in the event of the acquisition by a third party of more than 50% of the shares of the Corporation in specified circumstances, the Corporation may have to pay up to a maximum of $120 million, an amount which will gradually decline over a pre-established period.

Assuming an effective date of January 1, 1997 for the E.B. Eddy acquisition, the unaudited pro forma consolidated net sales, net earnings, basic earnings per share and fully diluted earnings per share would have been $2,905 million, $105 million, $0.55 per share and $0.54 per share, respectively, for the year ended December 31, 1998.

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

4.

Financing expenses

	2000	1999	1998
	$	$	$
Interest on long-term debt	97	104	89
Amortization of deferred debt issue expenses, deferred exchange losses and other	7	8	9
	104	112	98
Less: Income from short-term investments	–	1	6
Capitalized interest	3	–	1
	101	111	91

Cash payments for interest, net of interest income and amounts capitalized, totaled $94 million in 2000 (1999–$104 million; 1998–$78 million).

5.

Income taxes

Income tax expense	2000	1999	1998
Statutory income tax rate	40.7%	41.9%	42.0%
Income tax expense based on statutory income tax rate	$155	$114	$48
Large corporations tax	7	7	6
Manufacturing and processing credit	(25)	(17)	(7)
Tax rate differential resulting from the drawdown of deferred taxes	–	2	(3)
Non-deductible amortization	1	10	2
Reduction in income tax rate	(16)	–	–
Reduction of valuation allowance	(14)	–	–
Other	(3)	(5)	(4)
Income tax expense	$105	$111	$42
Income tax expense is represented by:			
Current	$ 30	$ 12	$41
Future	75	99	1
	$105	$111	$42

Cash payments for income taxes in 2000 amounted to $36 million (1999–$33 million; 1998–$18 million).

Components of future income tax expense

	2000	1999	1998
	$	$	$
Utilization of prior years' loss carryforwards	59	18	27
Difference between income tax allowance and accounting amortization	30	53	(45)
Expenses deducted for income tax purposes and capitalized in the financial statements	19	27	17
Reduction in income tax rate	(16)	–	–
Reduction of valuation allowance	(14)	–	–
Other	(3)	1	2
Future income tax expense	75	99	1

Future income tax assets and liabilities

	2000	1999
Future income tax assets:	$	$
Non-capital loss carryforwards	45	61
Investment tax credits and other deferred credits	40	46
Disallowed reserves	37	58
Employee future benefits	11	–
Other	9	–
	142	165
Future income tax liabilities:		
Difference between income tax and accounting amortization of property, plant and equipment	(668)	(531)
Other assets	(13)	(10)
	(681)	(541)
Total net future income tax liability	(539)	(376)
Net current future income tax asset	30	–
Net long-term future income tax liability	(569)	(376)
	(539)	(376)

Amounts presented for 1999 and 1998 are based on previous accounting recommendations (see Note 2).

6.

Inventories

	2000	1999
	$	$
Work in process and finished goods	311	223
Raw materials	131	118
Operating and maintenance supplies	104	95
	546	436

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

7. Property, plant and equipment

	2000			1999		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	$	$	$	$	$	$
Machinery and equipment	3,670	1,392	2,278	3,498	1,177	2,321
Buildings	759	295	464	746	264	482
Timber limits and land	188	17	171	181	15	166
Assets under construction	80	–	80	–	–	–
	4,697	1,704	2,993	4,425	1,456	2,969

8. Other assets

	2000			1999		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	$	$	$	$	$	$
Goodwill	94	20	74	88	16	72
Accrued benefit asset–defined benefit pension plans	75	–	75	60	–	60
Exchange losses on translation of long-term debt	43	11	32	26	11	15
Long-term debt issuance expenses	29	14	15	29	12	17
Other	23	3	20	13	2	11
	264	48	216	216	41	175

9. Trade and other payables

	2000	1999
	$	$
Trade accounts payable	272	215
Accrued salaries, wages and benefits	55	32
Accrued vacation pay	48	48
Accrued interest	30	29
Payables on capital projects	19	23
Provision for site remediation costs	12	16
Other	96	141
	532	504

10.

Other liabilities and deferred credits

	2000	1999
	$	$
Other liabilities:		
Accrued benefit liability–other employee future benefit plans	74	12
Accrued benefit liability–defined benefit pension plans	33	23
Provision for site remediation costs	29	29
Other	31	43
Deferred credits:		
Deferred gain on contribution of net assets to Norampac	58	63
Other	29	37
	254	207

11.

Long-term debt

	Maturity	2000	1999
		$	$
The Corporation and its subsidiaries			
Unsecured debentures and notes			
10.35% Debentures	2006	49	53
10% Debentures	2011	82	82
10.85% Debentures	2017	75	75
12% Notes (2000 and 1999–U.S.$11)	2001	17	16
8¾% Notes (2000 and 1999–U.S.$150)	2006	225	217
9½% Debentures (2000 and 1999–U.S.$125)	2016	188	180
Unsecured revolving credit facility	2003	195	229
Other		6	–
		837	852
Norampac			
Unsecured notes			
9.5% Notes (2000 and 1999–U.S.$75)	2008	113	108
9.375% Notes	2008	50	50
Reducing revolving credit facility (secured) (2000–FF33; 1999–U.S.$9; FF33; Cdn$13)	2003	7	33
Other		7	11
		177	202
		1,014	1,054
Less: Due within one year		41	24
		973	1,030

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

11.

Long-term debt (continued)

As at December 31, 2000, long-term debt repayments in each of the next five years amounted to:

2001	2002	2003	2004	2005
$	$	$	$	$
41	9	216	12	13

The Corporation and its subsidiaries

The 10.35% debentures have sinking fund requirements. The 10% and 10.85% debentures each have purchase fund requirements whereby the Corporation has undertaken to make all reasonable efforts to purchase quarterly, for cancellation, a portion of the aggregate principal amount of the debentures at prices not exceeding par.

On November 30, 2000, the Corporation has entered into a new revolving credit facility of $500 million, which expires on November 30, 2003 and bears interest at a rate based on the rate for bankers' acceptances for borrowings in Canadian dollars and on the LIBOR rate for borrowings in U.S. dollars. The $500 million facility was used to repay the outstanding amounts under the previous $350 million and $250 million credit facilities as well as a portion of Ris Paper's long-term debt.

As at December 31, 2000, $17 million (1999–$12 million) of borrowings under the unsecured revolving credit facility were outstanding in the form of overdraft and included in "Bank indebtedness". In addition, as at December 31, 2000, the Corporation had outstanding letters of credit pursuant to this bank credit for an amount of $8 million (1999–$10 million).

During 2000, the interest rates on outstanding borrowings under the revolving credit facilities ranged from 6.24% to 7.75% (1999–from 5.21% to 7.00%).

The indentures or agreements under which certain of the Corporation's debt was issued contain covenants, including a limitation on the amount of dividends on its shares that the Corporation may pay and on the amount of shares that it may repurchase for cancellation. The $500 million revolving credit facility contains restrictive covenants and requires commitment fees in accordance with standard banking practices.

Norampac

As at December 31, 2000, Norampac had a credit agreement with a syndicate of banks with respect to a reducing revolving credit facility of $57 million (1999–$82 million) and a revolving credit facility of $75 million (1999–$75 million) (together the "Bank Credit"), drawings under the latter are included in "Other". Borrowings under the Bank Credit are not guaranteed by the Corporation and are secured by the receivables and inventories of Norampac (except for the inventory of its French subsidiary) and by the property, plant and equipment of three of its Canadian containerboard mills. The terms of the Bank Credit also include certain financial covenants. Borrowings under the Bank Credit bear interest at base, prime or various money market instrument rates plus a margin determined by certain financial ratios attained by Norampac. During 2000, the interest rates on outstanding borrowings under the Bank Credit ranged from 4.10% to 5.85% (1999–from 4.06% to 7.59%).

12.

Commitments and contingencies

Environment

Domtar is subject to environmental laws and regulations enacted by federal, provincial, state and local authorities in Canada, the United States and France. In 2000, Domtar made environmental capital expenditures of $7 million (1999–$12 million; 1998–$11 million), mostly for the improvement of air emissions. At this time, Domtar cannot estimate the additional capital expenditures that may be required. However, management expects that if any expenditures are required, they will not have a material adverse effect on Domtar's financial condition, earnings or cash flows.

Domtar is continuing to take remedial action under its Care and Control Program at a number of former operating sites, especially in the wood preserving sector, due to possible soil, sediment or groundwater contamination. The investigation and remediation process is lengthy and subject to the uncertainties of changes in legal requirements, development of technological applications, and the allocation of liability among potentially responsible parties.

As at December 31, 2000, Domtar had a $41 million (1999–$45 million) provision to cover site remediation costs known and determinable, of which the long-term portion of $29 million (1999–$29 million) was included in "Other liabilities and deferred credits". The portion of this provision's fluctuation recognized in earnings in 2000 was nil (1999–$3 million; 1998–nil). The charge for 1999 was included in "Selling, general and administrative" expenses. However, additional costs, not yet identified, could be incurred for site remediation. Based on policies and procedures in place to monitor environmental exposure, management believes that any additional site remediation costs will not have a material adverse effect on Domtar's financial condition, earnings or cash flows.

Contingencies

Domtar is party to environmental and other claims and lawsuits which are being contested. Management believes that the resolution of these claims and lawsuits will not have a material adverse effect on Domtar's financial condition, earnings or cash flows.

Lease commitments

The Corporation and its subsidiaries have entered into operating leases for property and equipment. Minimum future rental payments under these operating leases, determined as at December 31, 2000, were as follows:

2001	2002	2003	2004	2005	Thereafter	Total
$	$	$	$	$	$	$
21	17	12	10	7	18	85

Total rental expense amounted to $23 million in 2000 (1999–$17 million; 1998–$15 million).

Norampac has entered into operating leases for property and equipment. Domtar's proportionate share of Norampac's minimum future rental payments under these operating leases, determined as at December 31, 2000, were as follows:

2001	2002	2003	2004	2005	Thereafter	Total
$	$	$	$	$	$	$
5	4	3	3	2	5	22

Domtar's proportionate share of Norampac's total rental expense amounted to $5 million in 2000 (1999–$2 million; 1998–$2 million).

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

13.

Stated capital

Preferred shares

The outstanding preferred shares were as follows at December 31:

	2000		1999		1998	
	Number of shares	$	Number of shares	$	Number of shares	$
Serial preferred shares						
Series A	69,576	2	69,576	2	69,576	2
Series B	1,950,000	49	2,070,000	52	2,190,000	55
Series F	–	–	–	–	1,200,000	30
		51		54		87

The authorized serial preferred shares consist of preferred shares issuable in an unlimited number of series, ranking equal with respect to the payment of dividends and the distribution of assets.

The Series A Preferred Shares are non-voting and redeemable at the Corporation's option at $25.00 per share since April 1, 1994. These shares carry a cumulative cash dividend per share of $2.25 per annum.

The Series B Preferred Shares are non-voting and redeemable at the Corporation's option at $25.00 per share. These shares carry a cumulative cash dividend equivalent to 72% of the bank prime rate.

The Corporation has undertaken to make all reasonable efforts to purchase quarterly, for cancellation, 1% of the number of Series A and Series B Preferred Shares outstanding on April 2, 1992 at prices not exceeding $25.00 per share. In connection therewith, Preferred Shares purchased for cancellation were as follows:

	2000		1999		1998	
	Number of shares	Average price per share $	Number of shares	Average price per share $	Number of shares	Average price per share $
Series B	120,000	20.62	120,000	19.98	120,000	20.39

On May 1, 1999, all issued and outstanding Series F Preferred Shares were redeemed by the Corporation at a cash price per share of $25.00.

Common shares

The Corporation is authorized to issue an unlimited number of common shares. The changes in the number of outstanding common shares and their aggregate stated value from January 1, 1998 to December 31, 2000 were as follows:

	2000		1999		1998	
	Number of shares	$	Number of shares	$	Number of shares	$
Balance at beginning of year	184,139,827	1,234	183,429,542	1,226	149,477,815	868
Shares issued						
Acquisition of Ris Paper	1,971,861	24	–	–	–	–
Acquisition of E.B. Eddy	–	–	–	–	35,714,286	368
Stock option and share purchase plans	623,128	8	1,079,185	11	345,541	3
Shares purchased for cancellation	(6,340,400)	(42)	(368,900)	(3)	(2,108,100)	(13)
Balance at end of year	180,394,416	1,224	184,139,827	1,234	183,429,542	1,226
Book value per common share at end of year		9.87		9.44		8.73

During 2000, the Corporation purchased for cancellation 6,340,400 common shares (1999–368,900 shares; 1998–2,108,100 shares) at an average price per share of $13.54 (1999–$15.93; 1998–$9.50) under a Normal Course Issuer Bid. The excess of the purchase price over the average stated capital of the shares has been charged to retained earnings.

Book value per common share is the sum of the stated value of common shares, retained earnings and accumulated foreign currency translation adjustments divided by the number of common shares outstanding at year end.

Earnings per share are calculated using the weighted average number of common shares outstanding during the year, which amounted to 182,938,639 shares in 2000 (1999–183,912,674 shares; 1998–163,428,334 shares).

Fully diluted earnings per share are calculated by taking into consideration the effect of the exercise of the stock options at January 1, 2000. The number of shares used in the calculation of the fully diluted earnings per share was 186,613,612 shares in 2000 (1999–187,063,293 shares; 1998–170,051,559 shares).

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

13.

Stated capital (continued)

Executive stock option and share purchase plan

Under the Executive Stock Option and Share Purchase Plan (the "Plan"), options, rights and bonus shares may be granted to selected eligible employees. One-fourth of the options may be exercised at each anniversary date of the grant, except for the following: (i) 39% of the options granted in 1998 and 48% of the options granted in March 1996 will become or became exercisable on the third anniversary of the grant; (ii) 74% of the options granted in March 1997 will become exercisable at the rate of 25% on or after the first anniversary of the grant if the market value of the Corporation's common shares reaches $18.25 in the year following the grant, at the rate of 50% on or after the second anniversary of the grant if the market value of the Corporation's common shares reaches $19.77 in the two-year period following the grant, at the rate of 75% on or after the third anniversary of the grant if the market value of the Corporation's common shares reaches $21.39 in the three-year period following the grant and at the rate of 100% on the fourth anniversary of the grant if the market value of the Corporation's common shares reaches $23.62 in the four-year period following the grant (referred to as the "performance options"). Options normally expire ten years after the date of the grant except for the performance options which expire eight years after the date of the grant. During 2000, 1999 and 1998, options were granted at a price equal to the market value on the day immediately preceding the date the options were granted. The fair value of options granted during the year was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: risk-free interest rate of 6.0% (1999–5.3%; 1998–5.4%); annual dividends of $0.14 per share in 2000 (1999 and 1998–$0.14 per share); expected lives of six years for 2000 (1999 and 1998–six years) and volatility of 33.5% (1999–30.0%; 1998–29.4%).

Changes in the number of options outstanding were as follows:

	2000		1999		1998	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding at beginning of year	3,058,465	10.59	3,097,348	10.69	2,933,005	10.82
Granted	747,000	16.08	739,690	9.48	581,060	10.10
Exercised	125,091	9.43	566,467	9.52	75,304	8.45
Cancelled	78,351	10.94	212,106	10.96	341,413	11.31
Outstanding at end of year	3,602,023	11.76	3,058,465	10.59	3,097,348	10.69
Options exercisable at end of year	1,118,197		874,304		984,184	
Weighted average fair value of options granted during the year		6.52		3.21		3.38

The following table summarizes information about options outstanding and exercisable at December 31, 2000:

	Options outstanding			Options exercisable	
Range of exercise prices	Number	Weighted average contractual life	Weighted average exercise price $	Number	Weighted average exercise price $
$6.38–$9.25	501,265	5.4	8.58	312,265	8.22
$9.48–$11.00	1,320,190	7.1	10.10	665,877	10.41
$11.25–$12.75	1,089,568	4.6	12.30	140,055	12.30
$13.00–$16.40	691,000	9.3	16.40	–	–
	3,602,023			1,118,197	

During the year, 209,672 shares were issued pursuant to the exercise of rights and 16,329 bonus shares were issued.

As at December 31, 2000, 10,000,000 common shares (1999–10,000,000; 1998–5,000,000) were authorized for issuance under the Plan.

Employee share purchase plans

Under the Employee Share Purchase Plans, all employees are eligible to purchase common shares at a price of 90% of the quoted market value. Common shares are purchased under the plans on monthly investment dates. Shares purchased under the Canadian plan are subject to a mandatory twelve-month holding period. Employees who hold the shares for 18 months following the date of acquisition (U.S. plan) or who hold the shares purchased in any calendar year until June 30 of the following year (Canadian plan) are entitled to receive additional common shares equivalent to 10% of the cost of such shares. As at December 31, 2000, 3,350,000 common shares (1999–3,350,000; 1998–3,200,000) were authorized for issuance under the plans. During the year, 272,036 common shares (1999–252,897; 1998–129,743) were issued under the plans at an average price of $13.22 (1999–$11.74; 1998–$8.45) per share. Since their inception, 2,791,064 shares were issued under these plans.

14.

Financial instruments

Fair value of financial instruments

	2000		1999	
	Fair value $	Book value $	Fair value $	Book value $
Long-term debt	1,048	1,014	1,095	1,054

The fair value of the long-term debt, including the portion due within one year, is based on quoted market prices.

Due to their short-term maturity, the carrying values of certain financial instruments approximate their fair values. These financial instruments include: cash, receivables, bank indebtedness and trade and other payables.

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

14.

Financial instruments (continued)

Accounts receivable securitization

In December 2000, Domtar entered into a revolving agreement to sell eligible accounts receivable. The agreement, which expires in December 2003, allows for sales of eligible accounts receivable up to a maximum of $75 million. At December 31, 2000, Domtar had sold, on a limited recourse basis, accounts receivable for cash proceeds of $60 million. Domtar has retained the responsibility for servicing the accounts receivable sold. Program costs are related to commercial paper rates in Canada.

Interest rate risk

Domtar's exposure to interest rate risk is as follows:

Cash	Non-interest bearing
Receivables	Non-interest bearing
Bank indebtedness	Floating rate and non-interest bearing
Trade and other payables	Non-interest bearing
Bank credit facility	Floating rate

The following represents Domtar's carrying amount of long-term debt by date of repayment, based on maturity date or management's expectation to repurchase long-term debt when debentures have purchase fund requirements. Management's expectation reflects prevailing market conditions.

Long-term debt		
Maturing in 1 year or less:	$41	Fixed interest rate
Maturing in 2 to 5 years:	$46	Fixed interest rate
Maturing in 2 to 5 years:	$204	Variable interest rate
Maturing in 6 to 10 years:	$454	Fixed interest rate
Maturing in 6 to 10 years:	$5	Variable interest rate
Maturing in 11 or more years:	$264	Fixed interest rate

Credit risk

Domtar is exposed to credit risk on the accounts receivable from its customers. In order to reduce this risk, Domtar reviews new customer credit history before extending credit and conducts regular reviews of existing customers' credit performance.

Domtar is also exposed to credit risk in the event of non-performance by counterparties to its financial instruments but does not expect such non-performance as counterparties are of high credit quality. Collateral or other security to support financial instruments subject to credit risk is usually not obtained. The credit standing of counterparties is regularly monitored. The total credit risk associated with Domtar's counterparties was immaterial at December 31, 2000. Domtar believes there are no significant concentrations of credit risk.

Derivative financial instruments

In order to reduce the potential negative effect of a rising Canadian dollar, Domtar has entered into various arrangements to hedge anticipated future net cash inflows denominated in U.S. dollars.

	Average exchange rate (Cdn $/U.S.$)		Contractual amounts (In millions of U.S. dollars)	
	2000	1999	2000	1999
	$	$	$	$
Forward foreign exchange contracts				
0 to 12 months	1.45	1.42	848	404
13 to 24 months	1.46	1.44	265	520
25 to 36 months	1.48	1.46	81	219
Currency options purchased				
0 to 12 months	1.45	1.38	20	211
13 to 24 months	1.43	–	302	–
25 to 36 months	1.43	–	209	–
Currency options sold				
0 to 12 months	1.60	1.39	20	111
13 to 24 months	1.52	–	302	–
25 to 36 months	1.52	–	209	–

Forward foreign exchange contracts are contracts whereby Domtar has the obligation to sell U.S. dollars at a specific rate.

Currency options purchased are contracts whereby Domtar has the right, but not the obligation, to sell U.S. dollars at the strike rate if the U.S. dollar trades below that rate. Currency options sold are contracts whereby Domtar has the obligation to sell U.S. dollars at the strike rate if the U.S. dollar trades above that rate.

The fair value of derivative financial instruments generally reflects the estimated amounts that Domtar would receive or pay to settle the contracts at December 31, 2000 and 1999. As at these dates, the exchange rates were $1.50 and $1.44, respectively, and the fair value of the above derivative financial instruments was as follows:

	2000	1999
	$	$
Unrealized gain (loss) on forward foreign exchange contracts	(51)	9
Unrealized loss on currency options	(3)	(4)

As at December 31, 2000, Domtar had a provision of $11 million (1999–$25 million) corresponding to the fair value, at the date of acquisition of E.B. Eddy, of hedging instruments acquired and still outstanding at December 31, 2000 and 1999. After taking into consideration this provision, the potential net unrealized losses stated above were $43 million (1999–net unrealized gain of $30 million).

Domtar enters into cash settled swap agreements to manage price risk associated with sales of kraft pulp and kraft linerboard and purchases of old corrugated containers. As at December 31, 2000, Domtar had entered into contracts expiring between 2001 and 2003. These derivative agreements fix the sale price for 21,000 tonnes (1999–nil) of kraft pulp, 105,350 tons (1999–nil) of kraft linerboard and fix the purchase price for 45,000 tonnes (1999–75,000 tonnes) of old corrugated containers. The fair value of these instruments, as at December 31, 2000, represented a net unrealized loss of $1 million (1999–net unrealized gain of $1 million).

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

15.

Accumulated foreign currency translation adjustments

	2000	1999	1998
	$	$	$
Balance at beginning of year	(1)	2	–
Effect of changes in exchange rates during the year:			
On the net investment in self-sustaining foreign subsidiaries	(1)	(6)	3
On certain long-term debt denominated in foreign currencies designated as a hedge of the net investment in self-sustaining foreign subsidiaries	1	3	(1)
Balance at end of year	(1)	(1)	2

16.

Interest in a joint venture

Effective December 30, 1997, the Corporation and Cascades Inc. merged their respective packaging businesses to form Norampac, a 50-50 joint venture.

The following amounts represent Domtar's proportionate interest in Norampac:

	2000	1999
	$	$
Assets		
Current assets	157	136
Long-term assets	396	365
Liabilities		
Current liabilities	75	78
Long-term liabilities	250	216

	2000	1999	1998
	$	$	$
Earnings			
Net sales	524	453	434
Operating profit	100	59	29
Financing expenses	18	21	22
Net earnings	56	22	3
Cash flows			
Cash flows provided from operating activities	111	38	24
Cash flows provided from (used for) investing activities	(50)	(14)	2
Cash flows used for financing activities	(42)	(24)	(26)

17. Cash flows

	2000	1999	1998
	$	$	$
Changes in working capital items:			
Receivables	100	(66)	(6)
Inventories	(24)	17	2
Prepaid expenses	5	(6)	5
Trade and other payables	(29)	(49)	(34)
Income and other taxes payable	(32)	(22)	41
Other	(26)	(35)	(14)
	(6)	(161)	(6)

18. Pension and other employee future benefit plans

i) Pension plans

Domtar has several pension plans covering substantially all employees. These plans are generally contributory in Canada and non-contributory in the United States. The assets of the pension plans are invested primarily in listed common stock and fixed income securities.

Defined contribution plans

The pension expense for the defined contribution plans is equal to Domtar's contribution. The 2000 pension expense was $4 million (1999–$4 million; 1998–$1 million).

Defined benefit plans

The pension expense and the obligation related to the defined benefit plans are actuarially determined using management's most probable assumptions.

Weighted-average assumptions	2000	1999	1998
Discount rate	7.0%	8.5%	8.4%
Expected return on plan assets	8.2%	8.5%	8.4%
Rate of compensation increase	3.5%	3.2%	3.2%

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

18.

Pension and other employee future benefit plans (continued)

Components of net periodic benefit cost for defined benefit plans	2000	1999	1998
	$	$	$
Service cost for the year	19	14	9
Interest expense	62	61	46
Expected return on plan assets	(73)	(66)	(50)
Recognized actuarial gains	–	(9)	(10)
Other	–	2	6
Net periodic benefit cost for defined benefit plans	8	2	1

Domtar's funding policy is to contribute annually the amount required to provide for benefits earned in the year and to fund past service liabilities over periods not exceeding those permitted by the applicable regulatory authorities. Past service liabilities primarily arise from improvements to plan benefits.

Change in accrued benefit obligation	2000	1999
	$	$
Accrued benefit obligation at beginning of year, as previously reported	770	704
Adjustment related to the adoption of a new accounting recommendation (Note 2)	98	–
Accrued benefit obligation at beginning of year, as adjusted	868	704
Service cost for the year	19	14
Interest expense	62	61
Plan participants' contributions	13	11
Amendments	12	42
Actuarial losses (gains)	36	(5)
Benefits paid	(56)	(55)
Other	2	(2)
Accrued benefit obligation at end of year	956	770

Change in assets of defined benefit plans	2000	1999
	$	$
Fair value of defined benefit plan assets at beginning of year	897	819
Actual return on plan assets	86	96
Employer contribution	15	21
Plan participants' contributions	13	11
Benefits paid	(56)	(55)
Other	3	5
Fair value of defined benefit plan assets at end of year	958	897

Funded status

	2000	1999
	$	$
Excess of fair value of defined benefit plan assets over accrued benefit obligation at end of year	2	127
Unrecognized actuarial losses (gains)	28	(143)
Unrecognized prior service cost	12	66
Valuation allowance	–	(13)
Net amount recognized	42	37

Amounts recognized in the Consolidated Balance Sheet

	2000	1999
	$	$
Accrued benefit asset–defined benefit plans	75	60
Accrued benefit liability–defined benefit plans	(33)	(23)
Net amount recognized	42	37

The accrued benefit obligation and the fair value of defined benefit plan assets for the pension plans with an accrued benefit obligation in excess of fair value plan assets were $116 million and $72 million, respectively, as at December 31, 2000.

Amounts presented for 1999 and 1998 are based on previous accounting recommendations (see Note 2).

ii) Other employee future benefit plans

The post-retirement and post-employment plans are generally unfunded except for certain long-term disability plans.

Components of net periodic benefit cost for other employee future benefit plans

	2000
	$
Service cost for the year	4
Interest expense	5
Net periodic benefit cost for other employee future benefit plans	9

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

18.

Pension and other employee future benefit plans (continued)

In 1999 and 1998, Domtar recognized a post-retirement benefit expense equal to its payments for the actual costs incurred. The expense was $3 million for each of the two years.

Change in accrued benefit obligation for other employee future benefit plans	2000
	$
Accrued benefit obligation, at the beginning of the year	15
Adjustment related to the adoption of a new accounting recommendation (Note 2)	65
Accrued benefit obligation, at the beginning of the year, as adjusted	80
Service cost for the year	4
Interest expense	5
Actuarial losses	16
Benefits paid	(7)
Accrued benefit obligation, at the end of the year	98

Change in assets of other employee future benefit plans	2000
	$
Fair value of assets of other employee future benefit plans at beginning of year	–
Adjustment related to the adoption of a new accounting recommendation (Note 2)	8
Actual return on plan assets	1
Employer contributions	7
Benefits paid	(7)
Fair value of assets of other employee future benefit plans at end of year	9

Funded status

	2000
	$
Excess of accrued benefit obligation over fair value of plan assets at end of year	89
Unrecognized actuarial losses	(15)
Net amount recognized in the Consolidated Balance Sheet	74

Weighted-average assumptions

	2000
Discount rate	7.1%
Rate of compensation increase	3.5%

For measurement purposes, 8.8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. The rate was assumed to decrease gradually to 4.2% for 2008 and remain at that level thereafter. An increase or decrease of 1% of this rate would have the following impact:

	Increase of 1%	Decrease of 1%
	$	$
Impact on net periodic benefit cost	1	(1)
Impact on accrued benefit obligation	6	(5)

19.

Related party transactions

Domtar is not aware of having entered into any transaction, other than on normal commercial terms and in the ordinary course of business, with its shareholders or any party related thereto.

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

20.

Segmented disclosures

Domtar operates in the three reportable segments described below. Each reportable segment offers different products and services and requires different technology and marketing strategies. The following summary briefly describes the operations included in each of Domtar's reportable segments:

— Papers–represents the aggregation of the manufacturing and distribution of communication and specialty papers as well as pulp.
— Wood–includes forest resources, sawmill operations and remanufacturing facilities.
— Packaging–comprises the Corporation's 50% ownership interest in Norampac, a company that manufactures and distributes containerboard and corrugated products.

The accounting policies of the reportable segments are the same as those described in the Summary of Significant Accounting Policies. Domtar evaluates performance based on operating profit, which represents sales, reflecting transfer prices between segments at market value, less allocable expenses before financing expenses and income taxes. Segment assets are those which are directly used in segment operations.

	2000	1999	1998
	$	$	$
Segmented data			
Net sales			
Papers			
External customers	2,598	2,095	1,558
Wood			
External customers	476	519	356
Intersegment sales	78	73	49
Packaging			
External customers	524	453	434
Intersegment sales	12	10	8
Total for reportable segments	3,688	3,150	2,405
Intersegment sales	(90)	(83)	(57)
Consolidated net sales	3,598	3,067	2,348
Amortization			
Papers	178	167	128
Wood	33	34	28
Packaging	26	26	26
Total for reportable segments	237	227	182
Corporate	2	2	2
Consolidated amortization	239	229	184

	2000	1999	1998
	$	$	$
Operating profit (loss)			
Papers	408	265	165
Wood	(33)	52	7
Packaging	100	59	29
Total for reportable segments	475	376	201
Items not related to reportable segments	1	3	(1)
Consolidated operating profit	476	379	200
Segment assets			
Papers	3,011	2,805	2,804
Wood	534	545	539
Packaging	553	501	503
Total for reportable segments	4,098	3,851	3,846
Corporate	169	168	184
Consolidated assets	4,267	4,019	4,030
Net additions to property, plant and equipment			
Papers	154	151	152
Wood	42	34	30
Packaging	44	21	21
Total for reportable segments	240	206	203
Corporate	6	8	9
Disposals of property, plant and equipment	(4)	(13)	(7)
Consolidated net additions to property, plant and equipment	242	201	205
Geographic information			
Net sales (a) (b)			
Canada	1,364	1,079	1,047
United States	2,157	1,922	1,230
Other foreign countries	77	66	71
	3,598	3,067	2,348
Property, plant and equipment and goodwill			
Canada	2,914	2,912	2,932
United States	134	109	123
Other foreign countries	19	20	23
	3,067	3,041	3,078

(a) Sales are attributed to countries based on location of external customer.

(b) Export sales from Canada were $1,658 million, $1,750 million and $1,176 million for 2000, 1999 and 1998, respectively.

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

21.

Reconciliation of Canadian and United States generally accepted accounting principles

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) which, in the case of Domtar, conform in all material respects with United States generally accepted accounting principles (U.S. GAAP), except as set forth below.

(a) Net earnings and balance sheet adjustments

Net earnings adjustments	2000	1999	1998
	$	$	$
Net earnings in accordance with Canadian GAAP	275	163	74
Adjustments in respect of:			
Net pension benefit cost (1)	(6)	(30)	(17)
Unrealized exchange gain (loss) on translation of long-term debt (2)	(18)	35	(31)
Unrealized gain (loss) on currency hedging contracts (3)	(73)	150	(62)
Post-retirement and post-employment benefit costs other than pensions (4)	–	(4)	(4)
Amortization of deferred gain (5)	(5)	(5)	(5)
Acquisition of E.B. Eddy (6)	(13)	(16)	(4)
Formation of Norampac (7)	(2)	–	(7)
Tax effect of the above adjustments	38	(38)	45
Difference in the determination of income taxes (8)	–	1	1
Net earnings (loss) in accordance with U.S. GAAP	196	256	(10)
Dividend requirements of preferred shares	3	3	3
Net earnings (loss) applicable to common shares in accordance with U.S. GAAP	193	253	(13)

Balance sheet adjustments

	2000		1999	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
	$	$	$	$
Property, plant and equipment (6) (7)	2,993	3,112	2,969	3,066
Other assets (1 to 4 & 6)	216	226	175	247
Trade and other payables (6)	532	575	504	480
Future income taxes (1 to 6 & 8)	569	572	376	483
Other liabilities and deferred credits (1 to 6)	254	219	207	248
Shareholders' equity (1 to 8)	1,831	1,949	1,791	1,836

(1) Net periodic pension benefit cost

On January 1, 2000, Domtar adopted the new Canadian accounting recommendations for employee future benefit costs (see Note 2). The new recommendations essentially harmonize Canadian GAAP with U.S. GAAP and were applied retroactively without restating prior years. Differences between Canadian and U.S. GAAP remain with respect to the amortization of actuarial gains and losses and past service costs arising prior to January 1, 2000. Prior to 2000, Domtar measured its pension benefit obligations, for Canadian GAAP purposes, using a discount rate based on management's best estimate of the long-term rate of return on the pension fund assets. Under U.S. GAAP, the discount rate to be used should reflect the rate at which the pension costs can be effectively settled at the date of the financial statements. The difference in discount rates impacted annual net periodic pension benefit costs prior to 2000.

(2) Unrealized exchange gain (loss) on translation of long-term debt

U.S. GAAP requires immediate recognition in earnings of unrealized foreign currency exchange gains and losses on long-term monetary items with a fixed or ascertainable life, whereas Canadian GAAP requires that these unrealized gains and losses be deferred and amortized over the remaining life of the related monetary items.

(3) Unrealized gain (loss) on currency hedging contracts

Under Canadian GAAP, gains and losses on currency hedging contracts are included in earnings only at maturity. Under U.S. GAAP, such contracts would be marked to market as they do not qualify as hedging instruments.

(4) Post-retirement and post-employment benefit costs other than pensions

On January 1, 2000, Domtar adopted the new Canadian accounting recommendations for employee future benefit costs (see Note 2). The new recommendations essentially harmonize Canadian GAAP with U.S. GAAP and were applied retroactively without restating prior years. Differences between Canadian and U.S. GAAP remain with respect to the amortization of actuarial gains and losses arising prior to January 1, 2000. Prior to 2000, Domtar accounted for post-retirement and post-employment benefits on a cash basis, except for post-retirement benefits recorded at the date of acquisition of E.B. Eddy. Under U.S. GAAP, post-retirement benefit costs are charged against earnings on an accrual basis.

21.

Reconciliation of Canadian and United States generally accepted accounting principles (continued)

(5) Amortization of deferred gain

Interests in joint ventures are accounted for using the proportionate consolidation method for Canadian GAAP. Under U.S. GAAP, joint ventures are accounted for using the equity method. This difference does not affect the reported earnings or shareholders' equity. However, under Canadian GAAP, a portion of the gain on the contribution to Norampac is deferred and amortized. Under U.S. GAAP, this gain was fully recognized upon the formation of Norampac.

(6) Acquisition of E.B. Eddy

The E.B. Eddy acquisition has been accounted for under Canadian GAAP, which at the time differed from U.S. GAAP in the accounting for income taxes (see 8 below), pension benefits (see 1 above) and accounting for business integration costs. As at December 31, 2000 and 1999, under U.S. GAAP, these differences would have increased Property, plant, and equipment by $91 million and $97 million, Other assets by $107 million and $86 million, Other liabilities and deferred credits by nil and $24 million, and Future income taxes by $32 million and $167 million and decreased Trade and other payables by nil and $2 million, respectively.

(7) Formation of Norampac

On January 1, 2000, Domtar adopted the new Canadian accounting recommendations for income taxes (see Note 2). These new recommendations essentially harmonize Canadian and U.S. GAAP and were applied retroactively without restating prior years. Accordingly, certain property, plant and equipment acquired at the formation of Norampac remained recorded at a lower value under Canadian GAAP. Further, under U.S. GAAP, certain components of the provision for reorganization costs would be charged to earnings as incurred and not capitalized upon the formation of Norampac.

(8) Difference in the determination of income taxes

On January 1, 2000, Domtar adopted the new Canadian accounting recommendations for income taxes (see Note 2). The new Canadian accounting recommendations essentially harmonize Canadian GAAP with U.S. GAAP. For Canadian GAAP, the new standard was applied retroactively without restating comparative years. Prior to 2000, under Canadian GAAP, Domtar accounted for income taxes using the deferral method. Under U.S. GAAP, income taxes are provided for on the liability method.

(b) Earnings per share in accordance with U.S. GAAP

Reconciliation between basic and diluted earnings per share

	2000	1999	1998
	$	$	$
Net earnings (loss)	196	256	(10)
Dividend requirements of preferred shares	3	3	3
Net earnings (loss) applicable to common shares	193	253	(13)
Weighted average shares outstanding (in millions)	182.9	183.9	163.4
Effect of dilutive stock options (in millions)	0.9	0.6	–
Weighted average diluted shares outstanding (in millions)	183.8	184.5	163.4
Basic earnings (loss) per share	1.06	1.38	(0.08)
Diluted earnings (loss) per share	1.05	1.37	(0.08)

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

21.

Reconciliation of Canadian and United States generally accepted accounting principles (continued)

(c) Supplementary disclosures

i) Defined benefit pension plans

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $35 million, $31 million and $5 million as at December 31, 2000 and $31 million, $27 million and $5 million as at December 31, 1999, respectively.

ii) Post-retirement benefit plans

Components of net periodic benefit cost for post-retirement benefits under U.S. GAAP	1999	1998
	$	$
Service cost for the year	1	1
Interest expense	4	5
Net periodic benefit cost for post-retirement benefit plans	5	6

Change in accrued benefit obligation for post-retirement benefits	1999
	$
Accrued benefit obligation at beginning of year	94
Service cost for the year	2
Interest expense	4
Actuarial gains	(29)
Benefits paid	(5)
Accrued benefit obligation at end of year	66
Funded status of the plans	66
Unrecognized actuarial gains	21
Net amount recognized	87

Weighted-average assumptions	1999	1998
Discount rate	7.3%	5.8%
Rate of compensation increase	3.5%	3.5%

iii) Accounting for stock-based compensation

Under U.S. GAAP, Domtar has elected to continue to measure compensation cost related to awards of stock options using the intrinsic value based method of accounting. In this instance, however, under FASB Statement 123, Domtar is required to make pro forma disclosures of net earnings, basic earnings per share and diluted earnings per share as if the fair value based method of accounting had been applied. Accordingly, Domtar's net earnings, basic earnings per share and diluted earnings per share for the year ended December 31, 2000 would have been reduced, on a pro forma basis, by $2 million, $0.01 per share and $0.01 per share, respectively (1999 and 1998–$1 million, $0.01 per share and $0.01 per share, respectively).

iv) Comprehensive income and accumulated other comprehensive income

Comprehensive income	2000	1999	1998
	$	$	$
Net earnings (loss) in accordance with U.S. GAAP	196	256	(10)
Additional minimum liability of defined benefit pension plans, net of tax of $(1) million (1999–$1 million; 1998–$3 million)	1	(3)	(6)
Foreign currency translation adjustments	–	(3)	2
Comprehensive income (loss)	197	250	(14)

Accumulated other comprehensive income	2000	1999	1998
	$	$	$
Additional minimum liability of defined benefit plans	(8)	(9)	(6)
Foreign currency translation adjustments	(1)	(1)	2
Accumulated other comprehensive income	(9)	(10)	(4)

21.

Reconciliation of Canadian and United States generally accepted accounting principles (continued)

v) Impact of accounting pronouncements not yet implemented

Accounting for derivatives and hedging activities

In 1998, SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities–Deferral of the Effective Date of FASB Statement No. 133", and SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", has been issued. Domtar must adopt the statements in fiscal year 2001 for U.S. GAAP reporting purposes. The statements outline accounting and reporting standards for derivative instruments and hedging activities. Under the standard, all derivatives will be recognized at fair value and will be accounted for depending on the intended use of each derivative and its designation as a hedge. The impact of implementing the standard on Domtar's consolidated balance sheet and consolidated statements of earnings and comprehensive income will be a reduction of net earnings and comprehensive income, in accordance with U.S. GAAP, by $1 million, an increase in "Other assets" and "Other liabilities and deferred credits" by $1 million and $2 million, respectively.

Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

In September 2000, SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", was issued. Domtar must adopt this standard for transfers and servicing of financial assets and extinguishments of liabilities occuring after March 31, 2001 for U.S. GAAP reporting purposes. This standard revises the standard on accounting for securitizations and other transfers of financial assets. The adoption of this standard is not expected to have a material effect on reported assets or earnings.

Earnings per share

The CICA has issued new accounting recommendations related to earnings per share. The new recommendations essentially harmonize Canadian and U.S. GAAP. Under the revised recommendations, the treasury stock method will be used instead of the current imputed earnings approach for determining the dilutive effect of warrants, options and equivalents. For the year ended December 31, 2000, basic earnings per share, under Canadian GAAP, would have not changed under the new recommendations. However, diluted earnings per share would have been $1.48 per share.

22.

Comparative figures

To conform with the basis of presentation adopted in the current year, certain figures previously reported have been reclassified.

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

Selected financial data

	2000	1999	1998	1997	1996
	$	$	$	$	$
Canadian GAAP					
Net sales	3,598	3,067	2,348	1,938	1,977
Operating profit before unusual items	476	379	200	56	109
Operating profit	476	379	200	56	74
Gain on contribution to Norampac, including amortization of deferred gain	5	5	5	25	–
Earnings (loss) from continuing operations	275	163	74	25	(87)
Net earnings	275	163	74	25	97
Total assets	4,267	4,019	4,030	2,962	2,709
Long-term debt	973	1,030	1,147	852	623
Total liabilities	2,436	2,228	2,342	1,661	1,397
Shareholders' equity	1,831	1,791	1,688	1,301	1,312
Per common share					
Earnings (loss) from continuing operations					
Basic (1)	1.49	0.87	0.44	0.15	(0.69)
Fully diluted	1.47	0.86	0.42	*	*
Net earnings					
Basic (1)	1.49	0.87	0.44	0.15	0.68
Fully diluted	1.47	0.86	0.42	*	0.63

The selected financial data presented above is prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). In the case of Domtar, these differ in certain respects from United States generally accepted accounting principles (United States GAAP), as shown in the reconciliation presented in Note 21 to the consolidated financial statements. Earnings and balance sheet data based on United States GAAP follow.

(1) The 1997 results include the after-tax impact of the gain on contribution to Norampac of $0.11 per share. The 1996 results include the after-tax impact of unusual items of $(0.17) per share.

* No dilution

December 31, 2000 (In millions of Canadian dollars, unless otherwise noted)

Selected financial data (continued)

	2000	1999	1998	1997	1996
	$	$	$	$	$
United States GAAP					
Earnings (loss) from continuing operations	196	256	(10)	23	(9)
Earnings (loss) before extraordinary items	196	256	(10)	23	203
Net earnings (loss)	196	256	(10)	23	139
Total assets	4,396	4,188	4,179	2,965	2,746
Long-term debt	973	1,030	1,147	852	623
Total liabilities	2,447	2,352	2,538	1,627	1,398
Shareholders' equity	1,949	1,836	1,641	1,338	1,351
Per common share					
Earnings (loss) from continuing operations					
Basic (1)	1.06	1.38	(0.08)	0.13	(0.09)
Diluted	1.05	1.37	(0.08)	0.13	(0.09)
Earnings (loss) before extraordinary items					
Basic (1)	1.06	1.38	(0.08)	0.13	1.49
Diluted	1.05	1.37	(0.08)	0.13	1.32
Net earnings (loss)					
Basic (1)	1.06	1.38	(0.08)	0.13	1.01
Diluted	1.05	1.37	(0.08)	0.13	0.92

(1) The 1997 results include the after-tax impact of the gain on contribution to Norampac of $0.11 per share. The 1996 results include the after-tax impact of unusual items of $(0.17) per share.

Selected production statistics[1]

(In thousands of tonnes, unless otherwise noted)

	2000	1999	1998	1997	1996
Papers (in thousands of tons)	1,381	1,354	1,009	780	766
Pulp (NBSK and NBHK)	624	636	400	242	239
Lumber (in millions of board feet)	1,090	1,136	869	613	736
Containerboard [2]	596	584	551	601	563
Corrugated containers (in millions of square feet, double-faced equivalent) [2]	4,844	4,621	4,457	6,318	5,888

(1) 1998 figures include five months of E.B. Eddy

(2) 2000, 1999 and 1998 figures represent 50% of Norampac

Financial information by quarter (unaudited)

	1st $	2nd $	3rd $	4th $	Year $
2000					
Net sales	867	832	954	945	3,598
Operating profit	138	120	121	97	476
Net earnings	72	61	60	82	275
Cash flows provided from operating activities	117	143	108	219	587
Net additions to property, plant and equipment	22	73	44	103	242
EBITDA	197	180	181	157	715
Per common share					
Net earnings					
Basic	0.38	0.33	0.33	0.45	1.49
Fully diluted	*	*	*	0.44	1.47
1999					
Net sales	695	754	804	814	3,067
Operating profit	55	86	111	127	379
Net earnings	15	32	50	66	163
Cash flows provided from (used for) operating activities	(59)	164	62	159	326
Net additions to property, plant and equipment	41	39	49	72	201
EBITDA	112	142	168	186	608
Per common share					
Net earnings					
Basic	0.08	0.17	0.27	0.35	0.87
Fully diluted	0.07	*	*	0.34	0.86

* No dilution

Historical Summary

(In millions of Canadian dollars, unless otherwise noted)

			2000	1999
			$	$
Operations	Net sales		3,598	3,067
	Operating expenses		3,122	2,688
	Operating profit (loss) before unusual items		476	379
	Unusual items and other expenses			
		Unusual items	–	–
		Financing expenses	101	111
		Premium and write-off on early redemption of long-term debt	–	–
		Gain on contribution to Norampac, including amortization of deferred gain	(5)	(5)
		Income tax expense (recovery)	105	111
		Non-controlling interest	–	(1)
	Earnings (loss) from continuing operations		275	163
	Discontinued operations, net of income taxes		–	–
	Net earnings (loss)		275	163
Financial Position	Assets	Cash, short-term investments and deposits	29	3
		Other current assets	999	843
		Property, plant and equipment	2,993	2,969
		Other assets	246	204
		Total assets	4,267	4,019
	Liabilities and shareholders' equity			
		Short-term financing	–	–
		Other current liabilities	640	615
		Long-term debt	973	1,030
		Future income taxes	569	376
		Other liabilities and deferred credits and non-controlling interest	254	207
		Equity element of convertible debentures	–	–
		Preferred shares	51	54
		Common shareholders' equity	1,780	1,737
		Total liabilities and shareholders' equity	4,267	4,019
Cash Flows	Operating	Cash flows provided (used for) from operating activities	587	326
	Investing	Net additions to property, plant and equipment	(242)	(201)
		Acquisition of businesses	(22)	(9)
		Net consideration received upon contribution to Norampac	–	–
		Net proceeds from business divestitures	–	–
		Other	(18)	23
	Financing	Dividend payments	(28)	(28)
		Long-term debt and equity financing	–	5
		Change in bank indebtedness	(1)	17
		Change in revolving bank credit	(163)	198
		Change in short-term financing	–	–
		Redemption, repayments and other	(87)	(337)
	Net increase (decrease) in cash and cash equivalents		26	(6)
Other Data	Per common share	Earnings (loss) from continuing operations (1)	1.49	0.87
		Net earnings (loss) (1)	1.49	0.87
		Cash dividends declared	0.14	0.14
		Year-end book value	9.87	9.44
		Market price		
		Toronto Stock Exchange		
		High	22.00	18.75
		Low	9.90	8.60
	Ratios	Return on common shareholders' equity (2)	16%	10%
		Net debt-to-total-capitalization ratio (3)	35:65	37:63
	Other statistics	Number of common shareholders	6,034	6,477
		Number of preferred shareholders	301	351
		Common shares outstanding (millions)	180.4	184.1
		Number of employees (4) (5)	9,155	8,232
		Salaries, wages and benefits (5)	611	544

(1) The 1997 results include the after-tax impact of the gain on contribution to Norampac of $0.11 per share. The 1996, 1994, 1992 and 1990 results include the after-tax impact of unusual items of $(0.17), $0.11, $(0.11) and $(1.84) per share, respectively.

(2) The 1997 figures exclude a non-recurring $17-million after-tax gain realized on the contribution of Domtar's packaging net assets to Norampac. The 1996 figures exclude non-recurring items related to the divestitures of the Gypsum and Decorative Panels divisions, a charge related to the refinancing program completed during the year and a charge principally related to asset write-downs.

(3) Ratio of long-term debt and bank borrowings (including retractable preferred shares for the years 1990 and 1991, net of cash, short-term investments and short-term deposits held in trust) to total capitalization.

	1998	1997	1996	1995	1994	1993	1992	1991	1990
	$	$	$	$	$	$	$	$	$
	2,348	1,938	1,977	2,206	1,596	1,287	1,270	1,238	1,630
	2,148	1,882	1,868	1,697	1,469	1,324	1,344	1,309	1,625
	200	56	109	509	127	(37)	(74)	(71)	5
	–	–	35	–	(27)	–	19	–	252
	91	50	72	123	133	133	107	84	96
	–	–	127	–	–	–	–	–	–
	(5)	(25)	–	–	–	–	–	–	–
	42	8	(37)	141	10	(64)	(77)	(53)	(133)
	(2)	(2)	(1)	6	–	–	–	–	–
	74	25	(87)	239	11	(106)	(123)	(102)	(210)
	–	–	184	65	67	(4)	(36)	(46)	(84)
	74	25	97	304	78	(110)	(159)	(148)	(294)
	9	283	44	286	319	115	42	115	2
	788	567	593	710	575	548	557	517	616
	3,000	1,954	1,982	2,076	1,809	1,898	1,955	2,038	2,115
	233	158	90	119	144	130	116	72	91
	4,030	2,962	2,709	3,191	2,847	2,691	2,670	2,742	2,824
	–	–	–	–	–	–	–	–	69
	694	408	408	416	367	338	465	308	378
	1,147	852	623	1,082	1,220	1,204	976	1,246	1,051
	269	212	210	240	99	66	118	209	277
	232	189	156	175	183	179	182	180	190
	–	–	–	99	93	88	–	–	–
	87	100	103	216	219	222	225	81	81
	1,601	1,201	1,209	963	666	594	704	718	778
	4,030	2,962	2,709	3,191	2,847	2,691	2,670	2,742	2,824
	248	125	172	520	166	14	(86)	(18)	77
	(205)	(130)	(351)	(367)	(226)	(94)	(61)	(87)	(197)
	(456)	–	–	(88)	–	–	–	–	(6)
	–	285	–	–	–	–	–	–	–
	–	–	604	–	297	28	–	8	158
	(2)	(16)	(19)	239	(235)	(5)	(2)	(2)	(2)
	(25)	(23)	(17)	(5)	(3)	(3)	(7)	(12)	(39)
	676	–	360	4	3	365	350	99	118
	(4)	15	(12)	10	16	(6)	4	(10)	(25)
	3	–	–	(89)	(21)	(25)	(194)	219	16
	–	–	–	–	–	–	–	(69)	(104)
	(509)	(17)	(979)	(31)	(16)	(195)	(86)	(15)	(24)
	(274)	239	(242)	193	(19)	79	(82)	113	(28)
	0.44	0.15	(0.69)	1.80	0.02	(0.88)	(1.06)	(1.20)	(2.46)
	0.44	0.15	0.68	2.32	0.55	(0.91)	(1.36)	(1.69)	(3.44)
	0.14	0.14	0.14	–	–	–	–	–	0.30
	8.73	8.03	8.04	7.56	5.23	4.69	5.57	7.12	8.94
	12.70	13.50	12.70	14.75	10.13	9.25	8.38	10.00	13.50
	6.80	8.85	9.00	9.25	6.50	4.88	4.25	7.00	9.00
	5%	1%	2%	37%	12%	(17)%	(23)%	(21)%	(33)%
	41:59	32:68	31:69	39:61	48:52	55:45	54:46	59:41	57:43
	7,076	7,254	8,732	9,347	10,303	10,868	11,284	11,673	12,434
	390	418	485	555	624	704	806	2,021	2,322
	183.4	149.5	150.4	127.8	127.4	127.1	126.2	100.9	87.0
	7,946	7,300	7,574	9,503	8,985	9,821	10,270	11,145	13,280
	414	461	462	550	551	562	564	585	667

(4) The 2000, 1999 and 1998 data exclude Norampac. The 1997 data includes 100% of Domtar's packaging division, although it was contributed to Norampac on December 30, 1997.

(5) The 1998 data for salaries, wages and benefits includes only 5 months of E.B. Eddy whereas the data for number of employees includes all employees of E.B. Eddy as at December 31, 1998.

The 2000 data for salaries, wages and benefits includes only 5 months of Ris Paper and Laurentide whereas the data for number of employees includes all employees of Ris Paper and Laurentide as at December 31, 2000.

Statement of Corporate Governance

Companies listed with the Toronto Stock Exchange ("TSE") have to disclose, on an annual basis, their approach to corporate governance and conformity of their practices with the *Guidelines for Improved Corporate Governance* ("Guidelines") issued by the TSE. These guidelines deal, among other things, with the responsibilities of directors, the constitution of the board and board committees, and board practices.

Domtar's corporate governance guidelines have been adopted by the Board of Directors in keeping with the Guidelines and with similar systems introduced by public companies.

Mandate of the Board

According to the *Canada Business Corporations Act,* the Corporation's governing statute, the business and affairs of the Corporation are managed under the supervision of its Board of Directors. There is no specific mandate for the Board since it has plenary power. The Board determines, among others, the management philosophy, assesses management's execution and reviews the results obtained. Its duties include approval of strategic plans, review of corporate risks identified by management and of the Corporation's practices and policies for dealing with these risks, management succession planning, and assessment of the integrity of the Corporation's internal controls and information systems.

Composition of the Board

The Board of Directors is of the view that its directors are unrelated directors, except for Mr. Claude Fontaine who is a senior partner of a law firm which provides legal services to the Corporation on a regular basis; Mr. Harry E. Gould whose company is an important customer of the Corporation; Mr. Raymond Royer, President and Chief Executive Officer of the Corporation; and Mr. Edward J. Waters who is associated with a financial institution which, from time to time, has provided financial services to the Corporation.

Domtar does not have a "significant shareholder" as defined in the Guidelines to mean a shareholder with the ability to exercise a majority of the votes for the election of the Board of Directors. At the 2000 Annual Shareholders' Meeting, sixteen (16) directors were elected to the Board of Directors; the names of five (5) of these directors had been proposed for election to the Nominating and Corporate Governance Committee by each of Société générale de financement du Québec ("SGF") and Caisse de dépôt et placement du Québec ("Caisse") which held 19.74% and 17.42% of the Corporation's common shares, respectively. Domtar has been informed by SGF and Caisse that they presently intend to vote their shares so that their nominees represent a majority of the Board of Directors. The Board includes a number of directors who do not have interests in or relationships with either the Corporation, SGF or Caisse.

Board chairman separate from management

The positions of Chairman of the Board and Chief Executive Officer are separate and distinct. Mr. Jacques Girard holds the position of Chairman of the Board since August 1996. Mr. Raymond Royer holds the position of President and Chief Executive Officer since September 1996.

At all meetings of the Board and committees of the Board, the opportunity is provided for any outside Board member to request that members of management be excused so that any matter may be discussed without any representative of management being present. During 2000, the Board and Board committees held, in the aggregate, seven *in camera* sessions without any representatives of management being present.

Committees

The Board has established the following committees:

The Executive Committee is composed of seven (7) directors, four (4) of whom are outside unrelated directors, one (1) is an inside related director and two (2) are inside unrelated directors. Except as otherwise provided by law and by the administrative resolutions of the Corporation, this Committee may exercise all the powers of the Board of Directors. In practice, however, the Committee acts only with respect to specific matters delegated to it by the Board of Directors and its approval level is limited to investments not exceeding $10 million.

The Committee met five times in 2000.

The Nominating and Corporate Governance Committee is composed of six (6) directors, three (3) of whom are outside unrelated directors, one (1) is an outside related director and two (2) are inside unrelated directors. The mandate of the Committee is to:

- recommend annually to the Board proposed candidates suitable for election or re-election to the Board;
- review and evaluate periodically the performance and contribution of each director and the effectiveness of the Board as a whole;
- review annually the compensation of the directors in their capacity as directors, and make recommendations to the Board in this respect;
- review periodically the mandates and performance of the committees of the Board and review annually the membership and chairs of the committees, and make recommendations to the Board in this respect;
- monitor the system of corporate governance of the Corporation; and
- advise the Board and the committees of the Board on corporate governance issues.

The Committee met once in 2000.

The Human Resources Committee is composed of seven (7) directors, five (5) of whom are outside unrelated directors and two (2) are inside unrelated directors. The mandate of the Committee is to:

— review the human resources policies of the Corporation;
— approve the engagement and termination, and the promotion and compensation of the members of the Management Committee of the Corporation and the engagement of all officers of the Corporation, except for the Chief Executive Officer and the Chief Operating Officer of the Corporation, in respect of whom the Committee makes recommendation to the Board; and
— review annually, or as needed, the succession planning for the Chief Executive Officer and the Chief Operating Officer, the senior management of the Corporation and their direct reports.

The Committee met four times in 2000.

The Audit Committee is composed of five (5) directors, all of whom are outside unrelated directors. The mandate of the Committee is to:

— review, prior to submission to the Board, all financial information and financial statements of the Corporation and the external auditors' report thereon;
— review with the external and internal auditors of the Corporation the arrangements for and scope of each proposed audit of the accounting records and report to the Board any significant reservations the Committee may have or the external or internal auditors may have expressed with respect to such arrangements or scope;
— review periodically with the Corporation's external and internal auditors their respective activities and the nature of their respective recommendations and to report on same at least annually to the Board;
— evaluate the performance of the external auditors, review their fees and make recommendations to the Board in this respect;
— evaluate annually the organization, independence and efficiency of the internal auditors; and
— review periodically the Code of Ethics of the Corporation and its adherence by Management.

The Committee met five times in 2000.

The Pension Committee is composed of six (6) directors, two (2) of whom are outside unrelated directors, one (1) is an inside related director, one (1) is an inside unrelated director and two (2) are outside related directors. The mandate of the Committee is to:

— approve the investment policy of the pension funds and the benchmarks used to measure the performance of the pension funds;
— recommend annually to the Board, for its approval, the funding policy for the pension funds;
— approve the hiring of the external portfolio managers and their objectives, and evaluate the performance of the external and internal portfolio managers;
— approve assumptions used in valuations of the pension funds and review reports therein; and
— recommend to the Board, for its approval, amendments to the pension plans.

The Committee met twice in 2000.

The Environment and Health and Safety Committee is composed of five (5) directors, three (3) of whom are outside unrelated directors, one (1) is an inside related director and one (1) is an outside related director. The mandate of the Committee is to review the policy, management plans, programs, practices and performance of the Corporation in light of applicable environment and health and safety legislative requirements, assess the performance of the Corporation in these areas and make recommendations to the Board.

The Committee met twice in 2000.

Decisions requiring prior approval by the Board

In general, all matters of management philosophy and strategic direction and all actions proposed to be taken by the Corporation that are not in the ordinary course of its operations require prior approval of the Board or of a Board committee to which approval authority has been delegated by the Board.

Shareholder communications

The Corporation communicates regularly with its shareholders and the investment community through quarterly reports, annual reports, press releases, periodic meetings and presentations. The Corporation has a shareholder relations process and an investor relations and communication program which enable the Corporation to respond adequately to shareholder questions and concerns and to communicate effectively with its shareholders, stakeholders and the public in general.

Board's expectations of management

The Board can and does act independently of management. The Board expects management to be responsible for the operation of the business, while respecting authorized financial limits, and adhering to the strategic plan, operational budget and the policies adopted by the Corporation. The Board expects to be advised by management, on a regular basis, as to the results being achieved, and to be presented with alternative plans and strategies to be implemented for approval, in keeping with evolving conditions.

Raymond Royer
President and
Chief Executive Officer

Jacques Girard
Chairman of the Board

Board of Directors
As at February 28, 2001

Jacques Girard (1) (3) (4) (6)
Montréal
Chairman of the Board
Domtar Inc.
President and Chief
Executive Officer
Montréal International

Claude Blanchet (1) (3)
Montréal
Chairman of the Board
President and Chief
Executive Officer
Société générale
de financement
du Québec

Gilles Blondeau (1) (3) (4)
Montréal
Vice-Chairman of the Board
Domtar Inc.
Chairman of the Board and
Chief Executive Officer
Optimum Group Inc.

Paul-Henri Couture (1) (3)
Montréal
Vice-President
Capital d'Amérique
CDPQ inc.

Claude Fontaine, Q.C. (6)
Montréal
Senior Partner
Ogilvy Renault

Louis P. Gignac (1) (3) (5)
Montréal
President and
Chief Executive Officer
Cambior Inc.

Harry E. Gould Jr. (5)
New York
Chairman of the Board
President and Chief
Executive Officer
Gould Paper Corporation

Claude R. Lamoureux (1) (2) (4) (6)
Toronto
President and Chief
Executive Officer
Ontario Teachers'
Pension Plan Board

Pierre Lamy (2) (4) (5)
Montréal
Economic and
Financial Consultant

Jacques Laurent (2) (4) (5)
Montréal
Senior Partner
Gowling Lafleur Henderson

Brian M. Levitt (3)
Montréal
Co-Chair
Osler, Hoskin & Harcourt

Louiselle Paquin (2)
Montréal
Senior Vice-President
Finance
SITQ Immobilier

Louise Roy (3)
Montréal
Vice-President, Marketing
and Commercial Services
and Representative
in Canada
International Air
Transport Association (IATA)

Raymond Royer (1) (5) (6)
Montréal
President and Chief
Executive Officer
Domtar Inc.

John D. Thompson (2) (6)
Montréal
Deputy Chairman
of the Board
Montreal Trust

Edward J. Waters (4) (6)
New York
Chairman of the Board
and President
C.I.I.C., Ltd.

Members of the:
(1) Executive Committee
(2) Audit Committee
(3) Human Resources Committee
(4) Nominating and Corporate
Governance Committee
(5) Environment and Health and
Safety Committee
(6) Pension Committee

Management Committee
As at February 28, 2001

Raymond Royer
President and
Chief Executive Officer

Christian Dubé
Senior Vice-President and
Chief Financial Officer

Roland Gagnon
Senior Vice-President
Wood Products Division and
Senior Vice-President
Human Resources
Development and
Work Organization

George Kobrynsky
Senior Vice-President
Communication Papers
Division

E. Craig McManus
Senior Vice-President
Forest Resources Division

Gilles Pharand
Senior Vice-President
Corporate Affairs, General
Counsel and Secretary

C. Lance Skerratt
Senior Vice-President
Eddy Specialty Papers Division

Printed in Canada

Shareholder and investor information

Annual Meeting
The Annual Meeting of Shareholders will be held at 1:30 p.m. on Thursday, April 19, 2001, at the Mount Royal Centre, Montréal, Québec.

Annual Information Form
The Annual Information Form may be obtained by writing to the Secretary of Domtar Inc.

Transfer Agents and Registrars
For Common and Series "A" and "B" Preferred Shares and Debentures: Computershare Trust Company–Halifax, N.S.; Saint John, N.B.; Montréal, Qué.; Toronto, Ont.; Winnipeg, Man.; Calgary, Alta.; Vancouver, B.C.

For Common Shares only:
The Bank of New York, New York, N.Y.

U.S. Cash Dividend Plan
Shareholders wishing to receive dividends in U.S. dollars may obtain detailed information by communicating with Computershare Trust Company at (514) 982-7555 or 1 800 736-1755.

Stock Exchanges
Common and Series "A" and "B" Preferred Shares are listed on the Toronto Stock Exchange. The Common Shares are also listed on the New York Stock Exchange. Ticker Symbol: DTC

Investor Relations
Christian Dubé
Senior Vice-President and Chief Financial Officer
Tel.: (514) 848-5511

Jean-Sébastien Vanbrugghe
Manager, Investor Relations
Tel.: (514) 848-5469
Fax: (514) 848-5638
Internet: ir@domtar.com

Shareholder Services
Shareholders having inquiries concerning their shares or debentures, or wishing to obtain information about the Corporation should contact:

Computershare Trust Company
Shareholder Services
1800 McGill College Ave.
Place Montréal Trust
6th Floor, Montréal, Québec
H3A 3K9
Tel.: (514) 982-7555
or 1 800 736-1755.

Head Office
395 de Maisonneuve Blvd. West
Montréal, Québec
H3A 1L6
Tel.: (514) 848-5400

Inquiries

Corporate
Communications and Government Relations Department
Tel.: (514) 848-5213

Papers Segment
Communication Papers Division
Canada and United States
Tel. (toll free):
1 800 267-2040

Eddy Specialty Papers Division
Canada
Tel. (toll free):
1 800 267-5290
United States
Tel. (toll free):
1 800 267-0721

Wood Segment
Forest Resources Division
Tel.: (613) 725-6805

Wood Products Division
Tel.: (514) 848-5133

Norampac Inc.
Packaging
Tel.: (514) 282-2635

In order to find the Domtar distributor nearest you, please consult our web site at www.domtar.com.

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